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25 March 1985

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## NATIONAL POLICY AND ISSUES

### ACHIEVEMENTS IN FINANCIAL WORK IN 35 YEARS

Beijing CAIZHENG [FINANCE] in Chinese No 10, 8 Oct 84 pp 1-7

[Article by the PRC Ministry of Finance: "Great Achievements in Financial Work in the Past 35 Years"]

[Text] The building and development of our socialist finance work began after the founding of the PRC. In the last 35 years, under the guidance of both the Central Party and the State Council, our finance work has attained important functional results during both the period of the people's economic recovery and subsequently in the phase of our reform and building of socialism. In addition, since the 3d Plenum of the 11th Central Party Committee, after correcting our errors liberating ideals, the finance work in our country has taken on yet another new phase and has begun to help in an overall basis the building and modernization of our country's socialism. In 1983, our country's gross national income increased from 6.5 billion yuan in 1950 to 124.9 billion with the capital expenditure rising correspondingly from 68 billion to 129.2 billion. In 1983, the total capital expenditure of the various departments and government organizations, that was in addition to the subsidies from the central government, reached more than 80 billion yuan. This increase in both the capital income of our country as well [as] in the figures of the independently derived expenditure therefore show that the strength of our country has become considerable and our country also has become a great pillar in the overall modernization and building of socialism.

#### In the Progress of the Great Social Reforms

New China's finance has been built and developed on the foundation of the system of new socialism as well as the system of the new socialist production. The finance is also both derived from and consumed by the people. With the work in finance, there is also planning in both the society and the economy. The finance is also completely independent in its growth. The finance is also closely related to the wealth of the country and the actual individual benefits of the masses. In addition, it is the tool in both the legislation and execution of their work by both the Central Party and the country during the different periods.

During the last 35 years, following the development of the economy in our society, our new socialist finance has also developed and increased. The

increase in the financial revenue primarily depends on the development of the socialistic economy as well as the increase in the people's revenue. During the period from 1950 to 1983, the increase in the total production of our industries and agriculture averaged annually at 9.2 percent, with the corresponding annual average income of the people being 7.3 percent. During the period from 1951 to 1983, the increase in the financial revenue averaged annually at 9.4 percent. In the organization of the financial revenue, appropriate measures that include benefits to the country, the organization and the individuals should all be considered. For the farmers in general who bear great responsibilities, the policy of the law system of taxation should always continue. During the early 50s, because of both of our continued engagement in the Korean War against the Americans as well as our work of building our country, the farmers bore higher taxation, with the rate being 12 percent of the total agricultural production. However subsequently, we determined the practice of spreading the load of responsibility and also the policy of increasing production rather than the taxation. As a result, the load on the farmers has diminished with the rate accounting for only 3 percent of the total agricultural production. In addition to the consideration of the taxation, the country has also paid great attention to the various social responsibilities of the farmers, and this cannot be over-emphasized. For example, during the mid 50s, because the farmers had all kinds of different heavy responsibilities, the country undertook reforms in this direction and as a result, some of the unreasonable responsibilities were diminished. In addition, the country has also made changes in the finances of both the nationally-run industries as well as those that are under other organizations; and therefore as a result, both the income that is necessary to the country and the benefits to the industries themselves have been guaranteed.

During the last 35 years since our country's founding, the composition of our country's revenues has had great changes in accordance with the economic and social developments. In 1950, among our country's income revenue, the amount that was derived from the state-run economies accounted for only 33.4 percent, while the income derived from all the socialistic collectives occupying 0.3 percent. Subsequently, the socialistic changes that were made in the state economies and the private system in the production resources were then basically completed. As a result, in the national income revenue of 1956, the amount that was derived from the state-run economies increased to 73.5 percent, while that from the socialistic collectives went up to 15.7 percent. From this, we know that our national income revenue is now securely based on the socialistic economic system. Subsequently, during the "Great Leap Forward" and the "Cultural Revolution," because of wrong "Leftist" ideas, the socialistic economic policy of public ownership was strongly emphasized at the expense of the development of other economic formulae such as that of the organization economy. As a result, in the income revenues of some years, there were unbalanced proportions between the incomes of the state-run economies and that from the organizational economies. At the moment, the Central Party has upheld the primacy of the state-run economies and it has also developed principles of the various economic situations. The composition of our total income revenue is therefore developing in the correct direction.

The expenditure of our revenue has been primarily on economic and cultural building, as well as the continual advancement of the standards of the material

and cultural lives of all our people. Within the last 35 years, the expenditures on the economic building, and the maintenance of social and cultural education (including the fundamental building, the circulating capital, and the various operating expenses) have been rising accordingly. From 1950 to 1983, among our country's income expenditures, the percentages of the accumulated expenditures in the various departments were as follows: 56.2 percent for education, 13.8 percent on social and cultural education, 17.8 percent on national defense and 6 percent on administration. Regarding the last two items, although they do not directly improve the people's lives, they are however essential in maintaining the normal course of productions as well as guaranteeing the daily necessities. At the same time, in order to advance the economic and cultural development in the minorities regions, in the historic revolutionary areas as well as the faraway regions, our Ministry of Finance has made special arrangement regarding their expenditures on economic building and social and cultural education. Since our country's founding, both the investment and expenditure that have been made by the central government on the last category have amounted to 13.5 billion yuan.

We can see clearly from the distribution of the income revenue above that a large part of the revenue has been spent both directly on the economic development and on improving the people's material and cultural lives. On this point alone, we should note that the planning of the "First 5-Year Plan" was more successful. Afterwards, under the influence of the "leftist" ideas, the control and care of the revenue became lax. As a result, considerable waste in different areas occurred and economic benefits also diminished. We are now concentrating our effort in reforming these harmful tendencies, and making various appropriate plans. We are also researching into the possibilities of where to build and we are also promoting and encouraging the practice of thriftiness in work trying, therefore, to discourage any tendencies to waste. As a result the various incomes will be well managed and their spending will exercise greater benefits.

Within the last 35 years, the main source of our national revenue has come from the development of the different economies in our country, and we have therefore been able to survive by ourselves. At the same time, we have also been able to use appropriately a portion of the foreign currency. In the 50s, we borrowed from the Soviet Russians and because at that time, we used the amount more wisely, we therefore benefitted in a small way our economic building. However subsequently, the Soviets went back on their agreement and this brought great harmful changes to our economy. Then during the Cultural Revolution, under the "Leftist" policy of closing our country to the outside, our work in making use of our foreign currency stopped basically.

After the 3d Plenum of the 11th Central Party Committee, the Central Party decided to practice the economic policy of opening up to the outside, and therefore once again has been able to benefit from the development of using foreign currency. From 1979 to 1983, our country borrowed in total U.S.\$9.8 billion.

We have used all this foreign currency in advancing our country's technological standards, strengthening our country's economic independence and deriving

general beneficial results. From now on, in our country's financial work, we will be using foreign currency to develop various international economic joint-ventures and thus achieve even greater achievements.

The actual circumstances cited above clearly show us that our country's new socialistic economy is derived from the people and is also in turn spent by the people. The system therefore has the characteristic of working for the benefits of all the people.

#### To Advance the Development and Perfection of the Socialist Productive Relationships

In the development and perfection of socialist productive relationships, our national finance plays a very important role. In 1952, the Central Party proposed the general line of direction that was transitional in nature. As a result, only after a considerable time, would the socialistic industrialization in our country be gradually realized, with also socialistic reforms in our country's agriculture, handicraft industry and the capitalist industry and commerce be made. Work in the national finance tried very hard to carry out this general line of direction and therefore exercised the appropriate influence.

Regarding socialistic reforms in agriculture, during the early stage after our country's founding, we practiced land reforms, and this measure was followed by our leading the farmers onto the path of mutual cooperatives. Our national finance also undertook the necessary implementary policies in this matter. For example, in the agricultural taxes, there were graduated rates. This meant that the different levels of income among the farming villages were appropriately considered and the poverty-stricken farming households were not required to pay any tax at all. Furthermore, during the formation of agricultural collectives, the central government established cooperative funds for the poor farmers, in order to alleviate any difficulties any farmers might have in paying the initial funds for the joining of the productive cooperatives.

Our national finance also administered policies of direct investing as well as making available through banks money for buying and selling goods. As a result, the development of agricultural production was greatly advanced and the collective economic power in agriculture was also thus greatly reinforced and strengthened.

When the collectivization of agriculture was completed, reforms were then made in agricultural taxation. In the whole country, the system of proportionate taxation was instituted, under which, the levying of taxes was based on the annual production output and as a result, increases were made in production rather than the amount of the taxes. At the same time, we worked according to the principle of asking the production teams to be self-sufficient primarily with the use of national subsidies as secondary support. However our national finance continued to fork out large amounts of capital to support the productive collectivization in agriculture; and in addition, we also made special funds available for the relatively underprivileged production teams to develop economic collectivization.



Furthermore in order to encourage handicraft industry to go on the cooperative path, our national finance also gave aid to the handicraft cooperatives, as well as giving them special benefit in taxation. During the 3 years from 1955 to 1957, the special taxation allowance that the handicraft industry got was equivalent to 4.4 times their cooperative share prices of 1955. Therefore, in the socialistic reforms of the capitalist industry and commerce, our national finance helped advance in different ways in their role of supporting nationalized economy. In addition, our nationalized economy also benefited our increased focus on capitalist economy. Through taxation merit, we were able to positively use factors of the capitalist industry and commerce that might be beneficial to the national economy and the people's livelihood, in order to advance the acceptance by privately-owned industries and commerce of socialistic reforms.

The finance work also had spent a great deal of effort in the completion of the internal productive relationships in our socialistic economy. With the basic completion of the socialistic reforms, the distribution relationships within the people's and the collectives' economies still need to be changed step by step in accordance with the principles of socialism.

In the farming villages, our national finance continue to stabilize the burden of the taxation on the farmers. In the industries in the country and the towns, and particularly regarding the industries that directly benefit the agricultural production and the welfare of the farmers, our national finance also continues to give allowances in their taxes, giving also special subsidies for the purchase of productive material.

Since the 3d Plenum of the 11th Central Party Committee, a new situation emerged, following the legislation of the joint production and responsibility system. As a result, the use of agricultural funds was regulated, with the provision of subsidies for the production of important grains and the addition of subsidies for the administration of some of the farming villages as well as the industries in some of the country towns.

In order to promote the production of commercial goods in some of the farming villages, under the support of the national finance, both measures of extensively increasing the government buying prices of some of the agricultural subsidiary products as well as the elimination of taxation were instituted. During the 5 years from 1979 to 1983, under the dual policies of subsidizing the prices and the elimination of agricultural taxation, our national finance spent around 1 billion yuan on agricultural subsidies. Furthermore, because of both the power of the party backing and the support of the national finance in the agricultural policies, the agricultural production in general resulted in rapid development. Take 1983 as an example, the total grains production in that year reached 774.5 billion catties, which represents an increase of 27 percent of the output in 1978; the cotton production of the same year was 92.74 million loads representing an increase of 114 percent than that in 1978; and lastly the oil production was 211 billion catties that was an increase of 102.2 percent of 1978.

In the reforms of the financial administrations, the appropriate way of dealing with the relationship between the country and the industries becomes very

important in the work of perfecting the internal productive relationships in the socialistic economy. From 1958 to 1960, we legislated the system of giving industrial funds to the state-managed industries, transportation, commerce and other industries as well as the maintenance of interests. Beginning from 1967, our country retained most of the funds basically for use of the industries in their equipment improvements.

Since the end of 1978, with the changes in the foci of the party, reforms in our financial system then entered into another new phase. In the distribution of relationship between the country and the industries, the rate of reforms was especially fast. The measure of industrial funding was restored, and the methods of legislating different systems of the distribution of interests as well as the system of the complete responsibility for profit and loss was undertaken. At the same time, the rate of keeping the original interests in industries was also partially increased. In 1983, the first reform of changing interest into taxation was made. During the 5 years from 1979 to 1983, the power of authority of the state-run industries was increased. At the same time, the measures of different kinds of interests was retained and that of the complete responsibility for profit and loss was instituted. As a result, the interest that was taken by all the industries amounted to 86.3 billion yuan, and 106.9 billion yuan of the funds that were based on the old rates were also taken. Therefore such important effects as the regeneration of the economy, the quick advance in industrial technologies and the positive regulation of the production of the workers were made.

In the distribution of relationship between the central and the regional finances, great reforms were made in 1980. As a result, in most of the regions, the new policy of "dividing up the revenue and expenditure and the responsibilities by different classes" (i.e. to eat rice at different stoves) was made. When we compare the proportions of the expenditure of the regional finances with their income, and when we determine the proportions in the regional finances between the amount that will be given to the central government and that which will be kept for their own expenditure, then such proportions will remain unchanged for the next 5 years. This is because when the regions have taken in more in accordance with the determined measures, then they can also have larger expenditures, and when they have taken in less, then they can also diminish their expenditure. As a result, the regional finances will be able to estimate their own balance of payments.

The central government has put into practice a special political spirit in legislating the finances of the two provinces of Guangdong and Fujian. As a result, in addition to the central government legislating the policy of "dividing up the revenue and expenditure, the giving to the central government the determined amount that is to be kept for the next 5 years," all the additional amount that has been taken in will be left to the two regions for their own use. In the financial administration of the minorities, the central government has determined the use of regulated subsidies with the annual increase being 10 percent.

The legislation of these measures have changed the traditional measure of the central government taking all the regional incomes as well as providing them

all their expenditures. Both the financial independence and the reserve force in the regions have therefore been strengthened. As a result, the planning of the different causes of building in the regions has been facilitated and the development of the people's economy has also been advanced.

In addition, considerable work has also been done in the strengthening of the regulation of the financial system. Under the approval of the National People's Congress and the National People's Congress Standing Committee, a number of decrees that govern the levying of taxes were passed; and under the approval of the State Council, a number of regulations regarding the taxation levy were also determined. All these measures have important influences in the reinforcement of financial administration, the perfection of the financial accounting systems, the tighter control of finance in general, as well as success in the reforms of the strengthening of the finance and its administration. As a result, the development of the people's economy and the economic benefit would continue to advance.

#### In the Support and the Advancement of the Socialistic Economic Building

During the last 35 years, in order to advance the socialistic industrial building in our country, about 561.6 billion yuan of our national finance has been spent in the fundamental building of industrial transportation. As a result, there was rapid development in many of the basic industrial sectors, such as the mechanical engineering area, and the chemical industry. Some of the other newly-established industrial sectors, such as the electronic, the nuclear and the space navigation industries, have also been established. Now our country already has perfected both our economic and the people's economic bases.

Let us look at some of the figures in 1983. During that year, the gross national output of our industries and commerce reached 402.3 billion yuan, that represents an increase of 24.8-fold since 1952. The production of steel was 40,020 tons, that of coal was 715 million tons and the electricity generated reached 351,400 units, and the production of unrefined oil was 106,070 tons. Our production in all these items continue to climb among the other world producers. In steel, we now number 4th as compared formerly to the 26th in the world; for coal, we have gone from 9th to the 3d, in electricity we have gone from 25th to the 6th; and for oil, we have gone from 29th to the 7th.

Our support of agricultural development is a very important part in our socialistic building of the economy. Our national finance not only has invested in the general building in its support of agriculture, but it has also allocated large sums for the basic building of agriculture and for the operating costs of agriculture. From 1950 to 1983, the national finance spent an expenditure of 227.6 billion yuan for the building of agricultural fields. As a result, new technologies have spread, and improvement has also been made in stock-breeding. Conditions for the growth of our agriculture have obviously become more favourable and the standard of the production technology in our agriculture has also been raised.

Our national finance has also spent great effort in the promotion of the modernization of our scientific technology. Our country spent a large amount

of expenditure on founding research institutions for both natural and social sciences. As a result, research in both the basic scientific theories and the applied sciences has been strengthened considerably. Furthermore, in order to realise the joint cooperation between the economic sector and the industries, scientific research was developed so that the modern technical results could be made use of. In our national budget, expenditures have been allocated for the testing of new products as well as changing funds for industries. In the operating costs of our economy, special expenditure has been allocated for scientific research. Moreover, industries are also allowed to write off certain losses in their testing of new products. Therefore a new rising technological sector has been built from all the hard work of a large number of the technical personnel who have been able to accomplish important technological results while filling certain gaps in the sector.

At the same time, there have also been great achievements in our national defense. Within the last 35 years, there has been rapid development in our national defense work. The Chinese People's Liberation Army have modern weapons among their normal equipment and the technological level of our national defense is also of the most modern in nature.

#### To Increase Investment Wisdom and Develop the Cause of Social and Cultural Education

Our building is characterized by special qualities of Chinese socialism, and therefore we build not only high levels of material culture, at the same time, we must build elevated spiritual culture also. The development of the models and standards of such causes as education, culture, art, health, and physical education are signs of the socialistic spiritual culture and they also are important factors in guaranteeing the development of modern material culture.

Since the founding of New China, our national finance has spent a large amount on building a great number of high schools, middle schools as well as primary schools. In addition, great reforms have also been made in the education department and as a result, the building of education in the rural villages, the border areas and the minorities regions has also been strengthened. At the same time, through the allocation of funds from both the national finance and also the industries, the development in agricultural labour, leisure education, work-study programme, radio broadcasting education, professional labour and professional training education and other adult education have been developed.

According to our national budgets, the amounts that have been spent on education are: the 376 million yuan that was spent in 1950 was increased 33 times to reach 12.8 billion yuan in 1983. The general increase has occurred particularly within the last few years that in order to fulfill the needs of modern building, great effort has been spent on intelligent planning and the expenditure on education in our national budget has also gone up accordingly. During the 5 years from 1979 to 1983, the total accumulated expenditure on education that was spent by the Education Department was 51.7 billion yuan, with the annual increase being 14.3 billion and this increase is considerably higher than the corresponding total increases in our national finance. From this, we

therefore know that even during the more difficult phases, our national finance had done more than a great deal for the cause of our education. From 1949 to the end of 1983, the number of the ordinary high school graduates numbered altogether 4.110 million, and the number of research graduates was 40 thousand while the graduates of the special middle technical schools (which include the middle technical and the teacher-training schools) numbered 7.22 million.

There has also been great development in the cause of our hygiene and health. As a result, a large number of medical and public health personnel have been trained, various kinds of health organizations have been established, and the system of setting up medical clinics throughout the countryside has basically been accomplished. Our national finance spent 5.282 billion yuan in 1983 on public health and this amount represents an increase of 72 times than the figure of 72.0 million yuan in 1950.

Particularly during the last few years, our country has increased its building of public health and we have also gone further in the area of family planning. From 1979 to 1983, our country spent altogether 23 billion yuan on these two causes--and this accumulated figure represents an annual increase of 15.6 percent during the 5 years. This increase belonged to the fastest rate among the other expenditures in our national finance. Because of the development in our public health, the old China where there was a scarcity of medication and treatment for the poor has been changed drastically. As a result, the level of health among the people has risen greatly and the death rate has also dropped from 25 percent of the total population from before the Liberation to 7.08 percent. Great success has also been attained in family planning, with the natural birth rate in 1983 having fallen to 11.54 per thousand.

In new China, there have been rapid development in culture, art, information reporting, publishing, physical education and other causes. Within the last 35 years, our country has established a large number of units that deal with the causes of culture, art and cultural objects, and the number of publications of journals and illustrated books has also increased. Our people's physical education has also advanced to a great degree with our athletes having gained world renown in certain sporting categories.

The rising cause of television and broadcasting has also developed at a fast rate, and it is now being used as an important tool in our work of advertising. The development of cultural and physical education has very important influences in raising the intellectual and moral ethics of our people, in elevating the scientific level of our nation, and in encouraging the spirit of our nation and in advancing the modern building of socialism.

#### Continue to Elevate the Standards of Living of Our People

One of our party's guiding principles is to develop the production bases in order to continue in the work of improving the people's lives. Our national finance has been based on the principle of "We must eat first and build secondly." Therefore in the allocation of its expenditures, our finance has appropriately planned for improvements in the people's lives in the town and country.

During the early stage after our country's founding, even when our country's financial economy was going through an extremely difficult time, our country was however spending great effort to restore and develop production, to stabilize prices and stop inflation, and at the same time, our country was also spending large amounts on emergency relief and employment planning in order to quickly stabilize the people's lives.

During the planning stage of the First 5-Year Plan, our country assured the funding necessary for the building as well as raised the living standards in the country: and at the same time, our national finance also undertook the following policies: To regulate the system of pay for the people who worked for either the government institutions or industries; to raise, according to the plans, the wage levels of the employees; to institute the system of labour insurance for the state employees; and to institute different systems of public welfare.

In 1957, the average wage for the employees of all the different categories in the institutions was 637 yuan, which was an increase of 42.8 percent when compared with the average pay of 446 yuan in 1952. The total contribution that was made to the labour welfare in all the units in 1957 amounted to 17.9 percent of the total wages. In the villages, our country not only spent large amounts of money in order to develop agricultural production, we also gradually raised our buying prices of the agricultural subsidiary products so that in 1957, the total government buying price of the agricultural subsidiary products represented an increase of 46.2 percent than that of 1950. At the same time, the price of the retail industrial products in the agricultural villages rose also by 12.1 percent bringing benefits to the farmers in both the increased production and the pricing.

For the period after 1958, because of the misdirection in our economy, our people's economy therefore had serious relapses and therefore there was a limit in the improvement of the people's lives. Subsequently after that, when the people's economy became regulated, the financial and economic situation therefore took a turn for the better and as a result, the living standards in the country and villages also rose. In 1965, the average cost of living in the cities and country rose when compared with 1957. From 1966 to 1976, during the "Cultural Revolution," the party, country and all the people suffered from relapses that were the most severe since the founding of the country. As a result, our people's economy dropped right down to the border of the lowest depth and therefore there was no improvement in the lives of the people in the cities or country.

Since the Plenum of the 11th Central Party Committee, in order to solve the problems that were left in the lives of the people from the chaos that had lasted for more than a decade, the people's lives again became a goal of improvement and both their incomes and expenditures were raised through different measures. From 1979 to 1983, through the planning of labour employment in the cities and towns, the wages of the employed were raised and a merit system was also instituted. At the same time, housing was also provided and public conveniences in the cities were also instituted. A large amount of money was also spent on providing different kinds of subsidies to the people and as a result, there was great improvement in the people's lives. In 1983, the average

annual income per employed household in the cities and towns represents an increase of 68 percent when compared with 1978. At the same time, in the farming villages, because of the rise in production and in the buying price of the subsidiary products, the average income per household there rose even at a higher rate and the figure in 1983 is an increase of 131 percent when compared with 1978.

#### Financial Work of the New Age

Since the 3d Plenum of the 11th Central Party Committee, our country has entered the historical stage with the overall modernization of socialism as well as the building of a new phase. Our work on finance has been rectified, cleansed of the "leftist" influences, with the restoration of the correct ideologies. Our finance has also regulated, reformed, and raised its guiding principles; and as a result, in its innovative work, it has determined new policies and systems and made new gains also.

Under the past influence of the wrong "Leftism," the policy of accumulation was strongly emphasized to the exclusion of any attention that was paid to improving the people's lives and there was thus accumulated influence on the masses and the people. During the last few years, our country has regulated the correct balance between accumulated capital and expenditure while also adhering strongly to the principle of using the strength we have in our action. As a result, appropriate balances were achieved in finance, reserved goods, the level of pricing and foreign currency.

In the control of the basic building model, at the same time when the period of accumulation of the capital should be shortened, such policies as the regulation of both the employment in the cities and towns and the employment wages, the rewarding of special bonus and the raising of the government buying price of the agricultural subsidiary products, should also be carried out. As a result, the funds available for expenditure will be greatly increased. In the total income of the people in the whole country, the percentage of the accumulated capital dropped from 36.5 percent in 1978 to 30 percent in 1983, while the expenditure rose from 63.5 percent to 70 percent in the correspond years. Furthermore from 1979 to 1983, our country spent 277 billion yuan on the improvement of the people's lives in the cities and country.

During our country's regulation of the proportions between the accumulated capital and the expenditure, our national finance at the same time is also increasing its investment capabilities, as well as controlling its investment model for the fixed assets, and regulating the components of the investment. Moreover in its guarantee of the important points in the building, our national finance has also increased its investment in the energy resources and transportation. All these measures have therefore had important influences in advancing the technological changes in our industries, in developing the light textile industries, in increasing marketing prosperity, and in enriching the people's lives.

Reforms in our financial work have also been developing in depth in accordance with the new economic development, and in order to positively regulate changes

in the industries, the regions and the various administrative units. By 1983, the first step in the reform of using the profit as a basis of taxation among the state-run industries was completed. On this new basis, taxes from these organizations would be levied according to definite percentages of their profit, and the amount that is left will be determined by other measures and it will be shared between the industries and the country. This therefore proves that the practice of basing the taxation system on the profit has greatly benefited in our management of the financial relationship among the country, the industries and the employees. As a result, the autonomy of the industries has also been increased, the assurance that the country will be getting the lion's share of the increased profit that has been gained by the industries has been guaranteed, and it also has helped attain the basic balance in the national finance between its steady increase in income and its expenditures.

At the moment, we are actively engaged in the second step of the reform in using the profit as a basis for taxation for the fourth quarter of 1984. This policy's actual legislation is as follows: The taxes on the goods are appropriately regulated, and increases have been made on the taxes of the capital resources, direct taxation and a few forms of the regional taxes. After all the taxes have been levied, then different rates of regulation taxes that are based on the regional differences would be levied. The amount of capital that has been left after these taxation levies will be given to the industries that had made the contributions in the first place for their own use.

The result of this reform can be seen in defining the method of capital distribution based on formulae that are shared between the country and the industries. As a result, the income of our country will follow the economic development and increase steadily, and at the same time, the industries will also be able to gain greater benefit from their increased profit. This new reform will also help resolve some of the conflicts that have arisen from the currently unreasonable systems in pricing and it will also lead to a greater sense of competition among the industries in the new economic environment. At the same time, industries will not have to base their contributions to the central government on a predetermined relationship, and the economic relationship between the central and the regional governments, particularly regarding the "local" or "central" authority will also be satisfactorily settled. From the 1st of April this year, our government has begun to offer employment bonuses to some of the industries, and also to practice the measure of "The above does not put a definite ceiling and the below does not guarantee the basis either." In other words, when the industries have made a profit that is greater than the amount that has been determined in the national budget, with the profit also exceeding that of the previous year, then the amount of the taxes levied will also increase with the increase in the bonuses that will be offered. In the reversed situation when the industries have not made as great a profit as that determined in the national budget with the profit therefore falling below the level of the previous year, then the bonuses that will be offered will be lessened or stopped with the possible necessity of even reducing the amount of wages. However when the bonuses that will be offered by the industries themselves exceed the limit that has been defined by the central government, then the central government will levy special bonus taxation in order to maintain its control of the industrial expenditure. This measure will be carried out widely following the legislation of the second reform.



After the completion of the second reform, the planning in the profit sharing between the central and the regional finances will be changed to the basis of their sharing the taxation. Therefore, the system of taxation will determine the taking for the central, the regional and that jointly by the two, and this will therefore ensure steady increase income for both the central and the regional finances.

In addition, regarding the basic building, there is also the item of the rate of repayment after investing with reforms made in changing the item of special allocation to the selling prices of the goods. The actual practice of this policy will therefore ask the industries to repay the national finance an amount that is based on their profit and the original rate of borrowing. This measure is more beneficial than the special allocations that are made by the national finance and it will also positively regulate the units in their building. At the same time, it will also reduce any waste in investing, it will reduce the time that will be taken in the building, as well as raising the benefit of investing. When we consider the fact that the units for such causes as cultural education, public health, as well as the administrative units are completely responsible for their own operating costs, we must therefore actively regulate and advance the practice of thriftiness in their expenditure and their operating costs.

All in all, within the last few years, reforms have been made in different aspects of the economy. These reforms have resulted in changing the system of economic welfare benefits under the old system of the central government when it took in all the profit and provided all the expenditures; and as a result, in the area of joint authorities among the regions and the different units, great advances have been made.

However in order to follow the party and the central government's doctrine of unifying both the financial and material resources, and to ensure the important policies in the building, our country must take the measure of unifying all the capital. In carrying out the financial reforms and guaranteeing the autonomy of the industries, from January 1983 onwards, the transportation resources tax has been levied on the industries, and units that deal with public causes, and others that are in the regions and in the military organization. From the 1st of October 1983, building taxation has also begun to be levied on the different regions, and the different organizations as part of their building expenses. At the same time, special taxation on policies and pricing have also been levied in order for the country to have some source of capital income. From 1981 onwards, our country also started to offer national treasury bills to help in the balance of payment and important building. In taking these measures that have been discussed above, our country has been responsible for the beneficial results in the financial improvement, in stabilizing the people's economy as well as in the important building.

Within the last few years, our government has practiced preferential policies, particularly in its great increase in using foreign currencies. At the moment, our country has spent part of its goods payment from abroad on our country's building. In addition, in order to encourage foreign commercial enterprises to engage in such undertakings in our country as using our labour in manufacturing

as compensation commerce, as joint-ventures or sole investment ventures, we have decided to use certain preferential policies in reducing taxation and giving special financial allowances.

For example, in the taxation of joint ventures, there is a 10-year agreement on the newly-established industries. During the first 2 years, there is no taxation levied on the business at all and from the 3d to the 5th year, the taxation is at half the normal rate. Moreover in such joint ventures as those in agriculture and timber, where the return is comparatively low and also when these ventures are located in economically-underdeveloped areas, then the preferential taxation rates will be even lower. Regarding the payment of the fixed assets on these businesses in regard to the time restriction that has been imposed originally, preferential treatment is also given to the overseas investors as compared with the corresponding rates within the country. Regarding both the unified commercial taxes on the imported or exported goods, as well as personal taxes, preferential treatment is also given to these foreign investors.

All these special policies have begun to be taken note of by some of the foreign commercial enterprises since they have proven most effective in attracting overseas investments. Up to the end of 1983, the number of joint ventures that have already been established numbered 188, and at the same time, there was an additional large number of other possible ventures that were under discussion. In 1984, the State Council decided to open to foreign investors 14 coastal ports and cities that range from Dalian in the north to Hainan in the south. In these newly opened cities, special economic zones offer preferential conditions and the autonomy of these cities would also be increased. Therefore in these ports and cities, the foreign investors will receive advantageous taxation allowances in their businesses.

The reforms and policies that have been discussed above would result in deeply-felt changes in our country's economy. These changes will also lead to the formation of a new basis in our country's financial work. Since the birth of new China, our economic gains have proven that under the leadership of the working class that has been armed with Marxism and Maoist ideology, and under the favourable socialistic system, the backward phase in an economy could reverse completely. At the same time, we can also use the foundation of these successes in order to build our country into a socialistic state with modern agriculture, modern industries, modern defense and modern scientific technologies.

However when we look back at the enormous gains that have been made in our financial work during the last 35 years, we would also see a number of weaknesses and mistakes that has been made. Within the past period, under the "Leftist" influence in our economic work in general and therefore also in our financial work, such mistakes as the setting of unrealistic goals, the control of finance was stopped and there was also serious wastage in the use of capital expenditures. We should know that had these mistakes not been made, the gains in our financial work would have been even greater and as a result, success in our economic development would also have been greater.

In this new historical era, the financial work is faced with glorious but extremely difficult tasks. Moreover we will encounter even more new problems, new situations and new experiences when we follow the complete modernization in socialist building. Therefore from now on, we must continue to advance on the foundation that has already been made by the many gains. We must continue to rid the poisonous influences of "Leftism" in our financial work, break down out-dated frameworks and methods, and to continue to make new reforms, to change such equalization practices as "one big pot" and "supply system".

On the contrary, we should greatly advance production among our cadres who are responsible for the finance and taxation, to continue to raise the economic benefits among all levels in society. In accordance with the changes in our economic development, we should promote the new doctrine of producing, accumulating and using our wealth. We should also realize and make use of the influences of our economic organizations, increase our standards in financial management and control, and try harder to develop a completely new economic environment. We will thus be making even greater contributions in the modernization of socialistic building.

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## NATIONAL POLICY AND ISSUES

### IMPORTANCE OF TECHNICAL ADVANCEMENT GENERALLY RECOGNIZED

Beijing LIAOWANG [OUTLOOK] in Chinese No 50, 10 Dec 84 p 4

[Correspondent's commentary: "People's Recognition of Need for Technical Advancement for Enterprises Now Deepening"]

[Text] At present, the problem with obsolete equipment, backward techniques, and outdated products is quite common among the industrial enterprises of our country. According to a survey on the two largest industrial bases of our country--Shanghai and Liaoning--the prolonged lack of technical transformation for the obsolete equipment and outdated technology has already affected the development of production and restricted the role of the old industrial bases in the entire national economy. In the machinery industry, the backwardness of technology is equally appalling. According to reports, only some 10 percent of the products of the machinery industry are of the 1970's or early 1980's vintage. On his visit to a power plant in Guangzhou, our correspondent found that a power generating set manufactured by Siemens Company of Germany in the 1920's was still in service. He was told that not long ago, some representative of this company visited this plant and was fascinated by this "decrepit" power generator. He offered to buy it at a high price to be shown to the world as a fine specimen of the company's products, manufactured in the 1920's and still serving as a major productive equipment in China today. What he said certainly contained a note of sarcasm.

The new worldwide technical revolution has already posed a big challenge to our future economic development. Whether or not we can quickly change the obsolete equipment, backward technology and outdated products which are now so common in the existing enterprises is directly related to whether we can narrow the gap between the advanced world standards and our own, whether our country can rapidly become wealthy and strong, and whether the people's living standards can be quickly raised. In the final analysis, it is a question of speed.

The second conference on technical advancement among the enterprises throughout the country held in Beijing ended successfully on 20 November. According to information from the group in charge of the proceedings, the number of participants in the conference was originally planned at some 600, but the actual number turned out to be more than 1,200. Many of them

had hurried to Beijing to participate in this event as soon as they heard of it. This shows the growing concern among the enterprises for their own technical advancement and their urgent need for technical transformation. The resolution of the Third Plenary Session of the 12th Party Central Committee on economic restructuring has, in particular, convinced most enterprises that without technical advancement, they can hardly adapt themselves to the new situation of commodity economy. People's recognition of the need for technical advancement among the enterprises is now deepening.

However, we must also note that not all enterprises or economic sectors can deeply recognize this point: the speed of technical advancement among the existing enterprises determines the rate of our economic growth.

At present, one obstacle to the acceleration of technical advancement among the enterprises is that the old habit of stressing new projects and neglecting transformation and of stressing extensiveness and neglecting intensiveness has not been completely eradicated, so that as soon as the development of productive forces and the acceleration of economic development are mentioned, people would immediately think of building new enterprises and setting up new "battlefields." Another obstacle is that the practise of "eating from the same pot" has not been completely eliminated among some enterprises. These enterprises do not recognize the necessity of technical advancement, since they can somehow "get by" without it. Still another obstacle is that some comrades engaged in economic work do not have the concept of the turnover of funds which is necessary for commodity production, the concept of interest payment, and the output-input concept.

According to an analysis of the relevant investigation data, apart from coal and other mines, the input of one yuan for renovation and transformation in industry generally produces about 2 yuan of industrial output value and 0.3-0.5 yuan for profit and tax. The experiences of existing enterprises in the steel and iron industry in the past several years in technical transformation are quite convincing. Why was it possible for our steel output to be increased from some 30 million tons 5 years ago to 40 million tons with an increase of nearly 10 million tons in 1983 and a decrease in energy consumption from some 73 million tons to some 60 million tons, even before the Baoshan Iron and Steel Complex was commissioned? One basic cause is technical transformation on the basis of enterprise consolidation. From this, we can see that while the strategic distribution of our productive forces in our economic construction is progressing after more than 30 years of hard struggle, it is carrying out technical transformation for the existing enterprises and taking the road of technical advancement. This has many advantages over building new enterprises and new industrial bases, such as the advantages of smaller input, shorter construction cycle, greater output and better economic results. For the economic development of a state, the length of construction cycles and the speed of output are by no means unimportant. One simple reason is that if the construction cycle is short, the turnover of funds will be faster and the interest to be paid will be less. Unless construction cycles are shorter, investments smaller and output quicker it will be difficult for

the state to become wealthy quickly. The experiences of some industrially developed countries in the use of new sciences and technologies to transform the traditional industries and to speed up their economic growth can also illustrate this point.

Therefore, a deeper recognition of the need for technical advancement among the enterprises and utilization of the opportunity to speed up the importation of advanced technologies from foreign countries (including the absorption and digestion of them), to speed up technological developments (including the tackling of difficult problems and the popularization of new technologies), to speed up the technical transformation of the existing enterprises (including equipment renovation), and to speed up the progress of technical management (including the management over quality improvement, energy conservation, standardization and measurement) will help us tap the potential of the hundreds of thousands of existing enterprises. Then we can certainly speed up our economic construction and help the country and the people to become wealthy much earlier.

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NATIONAL POLICY AND ISSUES

NEED FOR ADJUSTING LAWS REGARDING ADVERTISING DISCUSSED

Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 11, 15 Nov 84 pp 47-48, 46

[Article by Zhou Linbin [0719 2651 1755]: "Adjustment of Laws Regarding Merchandise advertising"]

[Text]. In merchandise advertising, along with the growth of socialist commodity production, the effect of regulation on it has become more notable day by day. Many enterprises have opened up new markets for their products with advertisements in radio, television, newspapers, magazines and roadside signs. It must be noted, though, that some merchandise advertisements currently in China are exaggerated and not factual, even to the point of violating social ethics and infringing on the legitimate rights of society. If this is allowed to develop further it could disturb the social economic order and cause the public to develop a feeling of distrust toward advertising. Because of this, China should strengthen its supervision of advertising, and in this, the adjustment of laws regarding advertising is an important measure.

I.

The impact on the commodity economy it produced is the basis for adjusting laws regarding advertising. Law is related to the regulation of society, while civil law regards the relationship of social and commodity adjustment as its own duty. With the reform of China's economic system the market economy has become increasingly active, and is now changing from a "seller's market" to a "buyer's market," and with the consumers determined to have a say about the goods they buy. Product sales are what keep the enterprises production continuing, and merchandise advertising is an important tactic and procedure for enterprises to sell their products. It can link up enterprise selling activity with consumer activity. This type of connection was started in the marketplace, and consequently created a connection with the market economy, and a relationship with the commodity economy. Merchandise advertising has the following major functions in its relationship with the commodity economy:

First, the transmittal of information concerning merchandise: The goal of some advertising is for advertisers just to pass on news and data concerning

merchandise to prospective customers. This type of advertising can provide consumers with knowledge about merchandise, foster their interest, create a desire to buy, and ultimately cause buying activity. Clearly this is a kind of potential economic connection between producers and buyers of merchandise. These advertisements are established on the basis of equality, voluntary participation, mutual benefit and mutual trust between the advertisers and the public. In this point is where the special characteristic lies in merchandise exchange between the two parties. Therefore, advertising that is not factual, although it promotes the sale of goods for the advertisers (producers), is obviously unfair to the broad masses of consumers. U.S. stipulations of product liability require manufacturers or merchants who put out untruthful advertisements to be responsible for the compensation of consumers who believed the advertisements and suffered losses because of it. This type of compensation is a civil responsibility. In China, looking at the need for price regulation in socialist commodity production, it goes without saying that the advertisers (mostly merchandise producers) and the public (mostly potential merchandise purchasers) should create equality, voluntary participation, mutual benefit and mutual trust in the commodity economy relationship, and use civil law to protect it.

Second, competition: The goal of some enterprises' advertising is not just so people can have information about their products, but also through advertising to make customers believe that their products are superior to those of the competitors. We often see this type of advertising "this factory's product has won X X award." This type of advertising not only creates a potential economic relationship between the advertisers and the customers, but also creates competition between the advertisers (the producers) and other producers. This type of competition is necessary for socialist commodity production but we must not adopt the competitive style in capitalist society of the weak being the prey of the strong, and strictly avoid unethical advertising. Some advertising adopts methods that deceive the public to increase the advertiser's product sales, and thereby belittle other products of the same type by saying theirs is better. After an enterprise puts out an advertisement saying their product is top quality, some other enterprises of the same type refute the claims of that advertisement. U.S. law calls this unjust advertising. The damaged party can ask for the advertisement to be removed or seek compensation through the courts. By throwing out the class properties and taking it from a legal point of view we can also adopt this type of civil protection of material and creditor rights.

Third, promotion of product sales: The goal of some advertising is to establish contact for the promotion of sales. For example, after an advertisement is published if a reader agrees with the payments and conditions of the advertisement then the reader and the advertiser enter into a contract, if the publisher (advertiser) later arbitrarily delays supply time or withdraws the price he gave, it is considered a violation of the contract and the violating party's responsibility should be found according to law. This type of legal contract responsibility should be in China's civil court practices.



The commodity economy relationship created by merchandise advertising between advertisers and the public should be equal, voluntary, have mutual benefit and mutual trust. It can be called the sustaining element for merchandise advertising. Therefore, constructing objective civil law to regulate merchandise advertising is both necessary and possible. Although China does not have a civil code, it does have currently in effect such elements of civil law. Contract laws, patent laws, and trademark laws, therefore, adjustment of laws regarding merchandise advertising can be carried out.

## II.

What are the methods for adjusting laws of merchandise advertising? This author believes the following.

A. The adjustment of contract law: Some advertisements used for direct sales in actuality often make up the basic agreement for contracts. It already has the commitment from the advertiser, so if a customer selects something from a display window and asks a store employee to take it out and then pays for it the two parties have established a buying contract. This is also the way to conduct direct adjustment of contract laws for advertising.

First, it should be determined whether or not the advertisement is a contractual agreement. Foreign scholars of contractual law divide advertising into two types, reward advertising and ordinary advertising. The first type is one where the advertisement says if you complete the stipulations of the advertisement will get a reward, this in theory and in practice is a contractual agreement. Looking at China's advertising practice, reward advertising can be regarded as a contractual agreement. For example, the television advertisements of Spring Festival couplets, if someone carries out the tasks in accordance with the advertisement and achieves a certain standard he or she is eligible for a prize. It is stated clearly that the person's actions (he or she promises to undertake) will be completely in accord with the advertiser's request (agreement), and because of the contract both parties have rights and obligations to each other. As for ordinary merchandise advertising, in principle they should not be regarded as contractual agreements but just as invitations for agreements. Persons who see these advertisements will not have to regard themselves as having a commitment to the advertisers, and the public should stay within the limits established by legal contracts. The public can carry out comprehensive and thorough investigation on the truthfulness of the advertisement to decide whether or not to enter into a contract with the advertiser. Obviously this type of activity is not a contractual commitment but a practical action geared toward the public. This can allow the public the greatest scope to avoid harm from untruthful ads. By starting out putting particular emphasis on the interest of the public (often customers), China's merchandise advertising will not need contractual agreements as a principle.

Second, the binding power of advertising agreements. If an ad is determined not to have any binding power as a contractual agreement, the main contention is whether or not the advertiser can withdraw the ad. English and U.S. law

advocates that an advertiser can withdraw the ad during the time frame as long as no one has accepted the ad. But on the contrary, France believes that it cannot be withdrawn. In order to stabilize the social economic order, we believe that after an ad is determined to be a contractual agreement the advertisers cannot arbitrarily withdraw it during its effective time period. For example, after an advertisement is published, should advertisers be allowed to return money paid by readers during the designated time period of the ad? Some publishing units in order to accumulate funds for construction projects extend ad times or publish ads that do not meet their claims to defraud readers of their money. There should be severe punishments by law for this type of malicious contract violation. In these instances, bookstores can seek compensation for damages from publishers, and purchasers of books can seek from the publishers the return of money they paid with interest.

Further, the truthfulness of agreements. Once an advertisement is determined to be a contractual agreement it has legal significance. A contract agreement expresses a certain meaning. Based on the laws and regulations of the expressed meaning (composing the important elements of the legal contract) it must be truthful and legal. Currently the serious problem is that some ads only speak of the product's good points and not the drawbacks. Is this truthful advertising? We believe that if an ad is regarded as an invitation for a contractual agreement, the ad material does not necessarily express the complete details. Due to this fact, the public should check out questions about the truthfulness of ads that relate to them, and the advertisers must honestly answer these questions. If the advertisers evade or do not answer some of the questions it will cause the public to mistakenly believe the ad and enter into a contract with the advertiser. Therefore, because the expressed meaning of the advertiser was flawed when the contract was made, the public can, according to law, seek from the advertiser cancellation of the contract or compensation for damages. Naturally if an ad is considered a contract agreement, then it does not need to be investigated by the public, the advertisers should shoulder the responsibility of guaranteeing the truthfulness of the ad. This responsibility is a legal responsibility, and in practice more methods should be found to put it into advertising.

B. The adjustment of laws regarding infringement of rights: Adopting advertising that uses improper competitive methods causes harm to others, and we should according to law find out who is to blame for the infringement of rights. Below are several points to take note of.

First, should the publishing agent (such as advertising companies, television, newspapers, and magazines) also be considered as parties who infringed upon rights? We believe that if in publishing the ad the agent was not at fault, for example, if the agent is deceived by the advertiser or the agent was limited in checking on whether the ad infringed on rights due to the specialized subject, then it should not be responsible for the infringement of rights. But if the publishing agent is at fault in causing it (intentional or unpremeditated); and just blindly goes after more advertising fees while not checking on the truthfulness and legality of the ad, then the publishing agent is jointly responsible for any infringement of rights caused by the ad.

Second, persons harmed by ads that infringe on their rights can seek compensation for damages from the party that caused the damage through a court of law. This type of compensation should be limited to the damaged party's material losses (directly or indirectly). For example, if this type of ad damages the reputation of an enterprise's high-quality product and causes losses (such as the product's sales quota dropping), then the damaged party has the right to seek compensation from the advertiser. As for the cost of restoring the product's reputation, such as the party that caused the damage using ads to clear up the distorted facts that should be the sole responsibility of the offending party.

Further, the party at fault (intentional or unpremeditated) being responsible for ads that infringe on rights establishes important conditions. This principle of unpremeditated crime should take the principle of strict responsibility as a supplement. That is to say, the attitude of the advertiser should be to pay special attention to the truthfulness of its ads instead of the ordinary attention that is usually paid. Japan has this legal precedent: An ad for a repeating toy pistol stated it was absolutely safe, but when a small child was using one it caught fire and injured the child. The courts decided that because the ad was erroneous, the advertiser should bear the responsibility for compensation. Therefore, it is clear that a direct relationship exists between the amount of attention paid by the advertiser and its mistakes.

We feel that this type of advertiser responsibility has a large effect in strengthening the truthfulness of China's merchandise advertising and protecting the interests of the vast numbers of consumers.

C. The adjustment of laws protecting property rights.: Property rights in civil law includes property rights of industry (such as patent and trademark rights), and cultural rights (such as copyrights). China's laws already published on patents and trademarks form the important elements for adjusting the laws of merchandise advertising. Advertisers often state their patent and trademark rights through advertisements. If others then knowingly violate these they should be punished according to the patent and trademark laws. If some advertisers, without approval, use the patented technology of others or copy trademarks of high-quality products of others for use in their own ads, they are then violating advertising property rights, and the persons whose property rights were violated can seek removal of the infringements or seek compensation for damages through the courts.

It should be stressed that the adjustment of laws concerning advertising should be coordinated with other laws. For example, when advertising blocks traffic or damages the environment, that advertising should be outlawed in accordance with China's regulations governing public order and environmental protection laws.

If the advertising agents management and supervision is so chaotic that it causes the ads it publishes to lose prestige, higher authorities can order the television station, radio station, newspaper, or magazine to stop its advertising work and carry out rectification; these sanctions will be based

on law. An individual advertiser that through advertising violates the four basic principles or encourages criminal activities and criminals will be investigated to find out who is responsible for the criminal activity.

In summary, the adjustment of China's laws concerning advertising is absolutely necessary to strengthen the honesty and ethics in advertising activity, to protect the interest of the vast numbers of consumers, safeguard the social economic order and increase the economic benefits of advertising. For this reason it is important that we draw up a complete "advertising law" based on the currently existing "Temporary Regulations Governing Advertising."

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NATIONAL POLICY AND ISSUES

TALKS BY PROMINENT CHINESE LEADERS ON ECONOMIC RESTRUCTURING

Beijing BAN YUE TAN [SEMIMONTHLY TALKS] in Chinese No 22, 25 Nov 84 pp 3-9

[Article by correspondent Li Shangzhi [2621 1424 1807]: "Prosperity, Real Benefits, Democracy--Wan Li, Hu Qili Talked on Economic Restructuring"]

[Text] A jubilant atmosphere prevailed over No 4 conference hall of the State Council in the afternoon of 30 October. Wan Li [5502 6849], political bureau member and secretary of the Secretariat of the Party Central Committee, and Vice Premier of the State Council; Hu Qili [5170 0796 4539], secretary and Hao Jianxiu [6787 1696 4423], alternate secretary of the Secretariat of the Party Central Committee, were here to discuss the question of economic restructuring with the young activists of the CYL Central Committee who had been invited to Beijing for the exchange of experiences.

On entering the conference hall, Comrade Wan Li said jocosely: "You people are at the forefront of the economic restructuring. We are going to learn from you." These remarks immediately enlivened the conference hall and put the young people at ease in discussing the question as though they were in the conference halls of their own units.

"Let me make some opening remarks. It is mainly about listening to your talks about your experiences." Wan Li continued: "Since the 3d Plenary Session of the 12th Party Central Committee, people throughout the country have acted in accordance with the spirit of the meeting, studied the "Decision of the CPC Central Committee on Reform of the Economic Structure," and deliberated on the important issue of economic restructuring focused on the cities. This is an issue concerning the prosperity of the state, the livelihood of people, and the development of our country, and has attracted world attention. We must provide careful guidance and also continue to deepen our understanding of the new situation, to sum up the new experiences, and to solve the new problems. Your experiences are very precious.

He continued: "We have already had some experiences in economic restructuring, especially in the countryside. The reform must let the broad masses enjoy real benefits as well as democracy. There are only two courses of action for us in winning mass support and making the reform a success. The reform in the countryside has clearly shown that the people are gaining

greater benefits and holding more decisionmaking power along with the development of the reform. That is why they are particularly enthusiastic in supporting the reform. They know that only through such a reform could there be national prosperity. Prosperity of the people and wealth of the country are identical. When the people have become rich, the country will become wealthy and strong. This is a very simple reason."

Wan Li said with some emotion: "I remember that 5 years ago, I visited Huining County of Anhui and found the commune members there very poor. When I came to the home of a commune member, the people there could not even serve a cup of tea. In embarrassment, they gave me only boiled water in a rough bowl. I felt very bad about this since I was then the first secretary of the provincial party committee."

"Now, it is better." Comrade Hu Qili interjected. "Recently, the peasants there have asked someone to deliver a message saying that their living standards have risen rapidly. The run-down house you visited before has been demolished and replaced by a new house. They also wanted Comrade Wan Li to take a look at their present prosperity."

Wan Li said: "The main purpose of economic restructuring is basically to bring benefits to the state and the people, to develop the productive forces and to help the state and the people become wealthy. This applies to not only the state, but also the people jointly. This is what we call enriching the state and benefitting the people."

"Comrade Xiaoping has said that while all the 10 points in the decision on economic restructuring are very important, Point 9, that is, the point on respecting knowledge and talented people, is the most important one. This is a fundamental question of strategic significance. Without talented people, there cannot be knowledge, and nothing can be accomplished." Wan Li raised his voice and said: "Now a fierce 'intellectual competition' is going on in the world. Apart from the role of the social system, this competition will decide who is strong and wealthy and who is weak and poor. The country where intellectual development is earlier will be wealthy and strong. The same theory applies to different regions in our country, because the region in which intellectual power is stronger will be more wealthy. Why are Shanghai and the southern region of Jiangsu doing so well? In my opinion, it is only because of their higher intellectual standards."

"Well," Comrade Wan Li said: "I am now through with my opening remarks. It is your turn to sing. You have done very well in the reform. Please tell us your experiences and what you have learned from them."

As soon as comrade Wan Li stopped, Xia Refan [1115 0117 0416], manager of Shenyang Municipal Streetcar Company, began his talk with an introduction to the important reform in the operations, management, organizations, system and distribution of his company, all carried out according to the special characteristics of a passenger transportation enterprise. With the increase in social benefits and improvement of economic results as the starting

point, his company first reformed the system of distribution and boldly replaced 30 mid-level cadres with 5 young professional cadres. Second, the company made a special effort to solve the problem of incompetent leadership and markedly improved the economic results. In June this year, the proceeds from ticket sales exceeded the planned amount by 43,000 yuan, a 14.9 percent increase over the same period last year.

Comrade Wan Li was much pleased. He asked little Xia: "What is your educational background?" "University education in economic management" was the answer. Wan Li said: "Fine. You must be very resourceful." Xia said: "Our basic aim is to solve the problem of transportation for the urban workers." Wan Li said: "The orientation is correct."

Wan Li continued: "Several days ago, I read something about a certain motor vehicle company. For the sake of selling more tickets, the vehicles had to wait a long time before starting, wasting the passengers' time. This is against the interests of the broad masses. Only the drivers and the conductors got real benefits while the passengers were inconvenienced. This is no good and must be changed. Some way should be found to operate on schedule for the convenience of the passengers and real benefits to the conductors and drivers without increasing the fares. It must be so."

When Xia mentioned his concern for social benefits in the reform, Wan Li said: "All service trades should give primary consideration to social welfare. The production departments on their part should produce goods of good quality and low prices. To do this, they must attach great importance to intellectual power and technology, and direct their efforts accordingly. It is not proper that only some units and small groups should stand to benefit. We must never substitute the false for the genuine and sell inferior goods at high prices to hurt people." Wan Li also pointed out: "The reform in the countryside has yielded tangible results, since more grain, cotton, edible oil and other farm produce were actually produced. In the cities, however, the situation is different, because some people can easily substitute the false for the genuine at certain links of circulation. The general principle behind the reform of the urban service trade is to provide convenience to the broad masses."

"Right," Comrade Hu Qili said: "Reform in the cities must serve people's convenience and the consumers' interests. Instead of the proper way of making profits by producing goods of fine quality and low prices and selling them in large turnovers with low profit margins, some units or individuals have chosen the devious way of jacking up prices or cheating on work and materials. We must never use such methods, or we will be deviating from the socialist road."

Hao Jianxiu was the next to speak. She said: "We must really stress social benefits; otherwise this cannot be a real reform."

"Right," Wan Li said: "We must never jeopardize people's interests; otherwise we can never win their support and the reform will fail."

Xia Renfan said that his company had adopted the system of holding party-government meetings, and that all important policy decisions must be discussed and adopted by the workers congress. The congress also held democratic elections for basic-level administrative cadres, assess and supervise the performance of cadres at various levels in the company, and recommend their rewards and punishments in the practise of democratic management. Wan Li gladly said: "Fine, this will further arouse the workers' enthusiasm politically. They will see themselves as masters of the enterprise and feel the existence of genuine democracy. When they have a keen sense of responsibility as masters, the enterprise will be well run."

When several young people mentioned that a personnel reduction may take place in some enterprises as a result of the reform, Wan Li said: "If the policy is correct and the workers' enthusiasm is aroused, labor productivity will increase. Furthermore, with the application of science and technology, technical strength will be increased and not so many people are required. Personnel reduction in an enterprise is not necessarily a bad thing. Since ours is a socialist system, nobody has to suffer hunger. The displaced personnel can be transferred to other trades or be used to develop the third industry. On the whole, everyone will be fed, although this will be different from "eating from the same pot" or egalitarianism as it was before. The food will not be the same for all people."

Su Jie [5685 3775], director of Jingang Emery Cloth Factory of Chongqing said that the number of cadres would be increased after the reform mainly because of the expanded operations, Wan Li commented: "This is only reasonable."

Wan Li strongly pointed out that if an enterprise wants its reform to be successful, it must first of all have a well-organized leading body. It must promote those who are competent in business operation and management to form a good leading body. Without such a leading body, no reform can be successful. He said: "The talents for business operations and management cannot be seen from diplomas, since university graduates are not as a rule competent for these jobs. We must judge from their actual performance. A correct choice of leadership is the key to success in any undertaking. We are not as good as the economically developed countries in this respect." He continued: "Every locality, enterprise and unit has its own talented people, and it is important that these people be discovered and promoted."

"How did you become a manager?" Wan Li asked Xia Renfan. Xie replied: "The chief of the public utility bureau, who is a veteran of the New Fourth Army, was particularly keen on promoting young cadres."

Wan Li said with elation: "He is a good comrade. If a person, who is not so politically conscious, should suppress the budding talents instead of promoting them, the party's cause may be ruined. From this, we can see the importance of the leading body. In bringing up the rising generation, all localities should carefully study this problem."

Wan Li said: "If an enterprise fails to make progress after a long time, the problem is not with their equipment, but rather with the lack of



attention to the use and promotion of talented people. The leaders of some units have often suppressed and refused to promote competent people under the pretext that young people 'lack experience,' 'do not know what they are doing or talking about,' or 'are arrogant.' This is very bad. Some capable persons are often fond of expressing their views, and some leaders treat them like "thorns" saying 'This young blood is too arrogant.' Thus instead of promoting them, these leaders treat them as eye-sores. Therefore those who are in leading positions should pay particular attention to Point 9 in the Decision of the 3d Plenary Session of the 12th Party Central Committee, and treat the respect for knowledge and talented people as a very important requirement."

Wan Li said: "Different people have different criteria for "obedience." Some people are often concerned with their own criteria but not with party principles. This problem should attract attention from those comrades charged with the duties of leadership. On the question of using people, not many are primarily concerned with people's family background these days. Yet there are still those primarily concerned with their own interests. We should be particularly careful in dealing with such people."

Xia Renfan said: "During the party rectification, some people complained that our old bureau chief had used young people who lacked perseverance in their work. Our chief replied with a flat refusal to share their views, and pointed out that he himself was also a young man when he was appointed as a leading cadre shortly after the liberation."

Wanli, Hu Qili and Hao Jianxiu joined in the praise of this bureau chief. Wan Li said: "It is a good thing that we have old comrades like this one! This bureau chief has a strong party spirit and high political consciousness. He appointed people according to their ability and deserves our high praise. Give him my regards when you go back and thank him on our behalf. I hope we could have more old comrades like him for discovering talents. Then the spectacle of ten thousand horses in full gallop will appear throughout the country. What a fine situation will it be!"

Comrade Hu Qili said: "An old Chinese proverb says: 'A conspicuous bird is likely to be shot at,' and another says: 'An exposed rafter often rots first.' When an enterprise or an individual becomes well-known after being promoted or commended for certain achievements, it or he may become a target of complaints or criticism. This is very bad. Such an enterprise or individual must disregard all gossips and idle comments. We on our part must persistently support the advanced and foster the practice of daring to remain conspicuous in the reform and to show their achievements."

After listening to the talk of Chen Chao [7115 6389], director of Anyang No two Pharmaceutical Plant, about the reform, Wan Li said: "In future competitions, quality is the most decisive factor. Whether or not an enterprise can maintain its foothold mainly depends on the quality of its products."

He added: "First we must lower the production costs and, second, increase the output and improve the quality of products. This should be the proper way to develop an enterprise, and only thus can the enterprise make profits. However, the enterprise must not one-sidedly try to be 'large and complete' or 'small and complete.' It must work for combination with other enterprises on the basis of mutual benefits."

After hearing from Chen Chao about the lack of technicians in his plant, Wan Li said: "Now, we do not have many graduates from secondary vocational schools. This is a problem with the structure of education. The authorities are willing to run only universities but not secondary vocational schools. This is no good."

When Chen Chao mentioned the somewhat over-strict regulations from the higher authorities, Wan Li said: "Drugs are for treating illness. If they are no good, they may kill people. They are different from other products, and must pass strict scientific tests. The control should be strict. On the whole, the producer of drugs should be responsible to the people."

Lu Dan [7120 0030], a 31-year old female assistant engineer and the chief of the electronic computer center of Shanghai Railway Administration Bureau, told the meeting how she had, on her own initiative, set up the computer center as an economic entity. Wan Li said with elation: "I am in favor of using electronic computers in railway administration first. Now, you have taken the lead. This is very good."

Hu Qili interjected: "We must turn applied technology and the scientific achievements of a developing nature into productive forces. Then we must recognize these achievements as commodities. If we do not recognize their intrinsic value, it will be very difficult to turn them into productive forces. Some of these achievements, which should be extensively applied, have ended up in some monographic treatises or as exhibits. This is a very serious waste."

Yu Cailiang [1471 1752 0081], deputy CYL secretary of the No eight Construction Company of General Nonferrous Metal Industry Company reported that some localities and units ignored the role of the CYL in economic restructuring. Wan Li said: "Young people are the mainstay in production and reform. It is wrong to ignore the roles of the CYL and the young people. At the same time, the league must organize and lead its members and young people in serving as pathbreakers or in playing the vanguard's role in production and reform. It is wrong for them to ignore you. On the other hand, you young people must do something to vindicate your rights." He also hoped that the CYL cadres would love their jobs in whatever trade they might be, that they would study hard in order to acquire the required scientific and technological knowledge, and that they would face the realities, the world and the future with confidence and show some concrete results.

Hu Qili said: "If a CYL cadre wants to be both red and expert, he must be proficient in his own line before he can be forceful in ideological-political

Wan Li, Hu Qili and Hao Jianxiu were particularly impressed by the speech of Huang Ruitang [7806 3843 2768], manager of a comprehensive service company in Huandong Teachers Training University. He Qili said: "Your orientation and method are correct. The work-study program and the technical and daily life services in a university are all quite proper. Your experiences should be popularized." Wan Li said: "The service trade as an aid to scientific research, teaching and daily life conveniences in a university can also help solve the financial problems of the intellectuals. It is very good. Many intellectuals have to take care of their parents as well as their children. They have difficulty with their livelihood and their work is very arduous. We should help them solve some problems in the wage reform. By developing the service trade, we can also help them solve more problems, such as the problems of feeding and raising their children."

Finally, Wan Li strongly pointed out: "Our communist party is the party representing the people's interests. We must proceed from the interests of the state and the people in all undertakings. The objective of the current economic reform is to help the country become wealthy and strong, to provide the people with real benefits, to speed up the socialist material and spiritual developments, and to foster socialist democracy. This was how we succeeded in winning the support of people of various nationalities in the country." He added: "The economic restructuring must proceed in accordance with the Decision of the Third Plenary Session of the 12th Party Central Committee. We must make this reform a success." He hoped that the cadres of the older generation could discover and recommend more talented people, and that the young people would follow the example of the fabulous monkey in daring to reform, being good at reform, studying hard and serving as the vanguard in the economic reform. He encouraged the young people in these words: "Now that the Party Central Committee has given ample opportunity for young people to demonstrate their skill, let us see how you will take good advantage of this opportunity."

Hu Qili also encouraged them, saying "You must combine the scientific spirit with the realistic approach and work diligently and steadfastly. While the reform is in progress, you should have a clear mind, refrain from arrogance in moments of triumph and from defeatism in moments of failure, stand firm in the face of abuses from others, and have an unflinching spirit in taking the socialist road. You should also vigorously develop a planned commodity economy, perseveringly establish a socialist economic system that is full of vitality, and bring about a phenomenal change in our country."

Three and half hours had passed, and the lights had been turned on in the courtyard of Zhongnanhai. Wan Li, Hu Qili and Hao Jianxiu escorted the young people out of the conference hall, and the young people warmly applauded to express their thanks to the leading comrades.

## NATIONAL POLICY AND ISSUES

### REFORMING ENTERPRISES BY ECONOMIC, LEGAL MEANS

Beijing GONGREN RIBAO in Chinese 14 Nov 84 pp 1-2

[Article by Gu Ming [7357 2494]: "Do a Good Job in Reforming Enterprises by Economic and Legal Means"]

[Text] The 3d Plenary Session of the 12th Party Central Committee summed up the experiences, both positive and negative, in economic construction accumulated since the founding of New China and the experience in urban and rural reforms in the past several years and answered a series of important questions both theoretically and practically. The key to restructuring the national economy is the invigoration of enterprises. With this key in mind, we must find solutions to the existing drawbacks and problems and carry out a series of structural reforms of the urban economy. We must reform enterprise management, planning and pricing, separate the functions of government and enterprises, establish various forms of economic responsibility systems, implement the principle of distribution according to work, vigorously develop diverse economic forms and continue to expand economic and technical exchanges at home and abroad. All these things involve the question of how the state should lead, organize and manage the economy and the question of how to correctly apply the economic, administrative and legal means. All these have put forward new requirements for strengthening economic legislation, reforming enterprises by economic and legal means and promoting the development of the productive forces.

1.

The Decision on Reform of the Economic Structure, adopted by the 12th Party Central Committee at its 3d Plenary Session, is a blueprint for all-round reform, shows the direction for restructuring the urban economy and is a great program for us to reform the economic structure and push forward the socialist modernization drive. Reform of the economic management system must be conducive to speeding up the production and circulation of material goods and to promoting the development of the social productive forces. On this premise, the relations of production and the superstructure which are not suited to the development of the productive forces must be reformed correspondingly. The state should see to it that the economic relations and management forms which are suited to the development of the productive

forces be codified into laws for the entire society to follow. We should know how to elevate through legislation the whole set of correct policies and lines, put forward on the basis of objective laws and concrete national conditions into laws, statutes and regulations to insure that the policies and lines will be effectively implemented. We should seek development in the course of reform and promote reform through economic legislation. We should bring about a change in method to lead, organize and manage the economy-- from the past practice of managing the economy mainly by administrative means to managing the economy by a combination of economic, administrative and legal means. We should carry out reform according to the principle of separating the functions of government and enterprises, streamlining administration and instituting decentralization, extend the decision-making power of enterprises and allow them to operate independently and be responsible for their own profits and losses so that government organs can properly perform their function of managing the economy and so that enterprises can be invigorated. Government organs should make enacting economic laws and regulations and supervising their implementation one of their major functions. The development of a socialist commodity economy inevitably will bring a series of intricate, complex lateral relations in which there are both cooperation and competition as well as contract relations and other legal relations at home and abroad, and thus inevitably more laws will be needed as safeguards. Economic means is combined with legal means as a result. Administrative means also needs to be checked and coordinated by legal means. The two have some common characteristics. For example, in macroeconomic management, both are exercised in the name of the state, and both are mandatory in the name of the state. But the two also have many different characteristics. For example, administrative means mainly manifests itself as directing and organizing actions by organs of state administration or their agents, but laws mainly consist of general and pattern-setting norms and rules or code of conduct, which are not applicable only to certain specifically designated persons or applicable only once, but are universally applicable and repeatedly applicable. Laws are characterized by their absolute authority, continuity, stability and uniformity. Therefore, in economic management, we should learn to apply the legal means and be good at organically combining legal with economic and administrative means.

The system of economic laws is an important component of the socialist legal system as a whole. Its purpose is to codify into laws the basic norms of conduct which must be observed in applying administrative and economic means so that the leadership at all levels will be able to make a clear distinction between what is legal and what is illegal in applying administrative and economic means, and so that enterprises will have something to go by and to restrain themselves with when exercising their decision-making power in production and management. It can be said that as the economy becomes more invigorated and the decision-making power of enterprises becomes greater, it is all the more necessary to strengthen the economic laws. Only in this way will there be control without rigidity, flexibility without confusion. Without economic laws, it is impossible to maintain normal order in socialist construction, and it is impossible for the economy as a whole to leap forward along the socialist path. Today, as the reform is progressing in depth, the situation not only calls on us to affirm and consolidate the results

of reform through legislation, but requires that we remove the obstructions and clear up the way for the reform to advance in depth through legislation.

2.

At present, the key to reforming the urban economic system is invigoration of enterprises. Improvement of the planning system is an important condition for bringing the vitality of enterprises into play. The state has the power to lead and control the enterprises through planning and by economic, administrative and legal means. Macroeconomically it is necessary to impel enterprises with pricing, taxation, credit and other economic levers to strengthen economic accounting, improve economic management and bring their inherent initiative and potentialities into play so that they can compete successfully. Within enterprises, it is necessary to apply the various decision-making powers to carry out reforms, tap potential capacities, reward the diligent and punish the lazy in order to raise labor productivity to the highest possible level. Both economic and administrative means need laws and regulations to be followed so that enterprises can compete in normal ways under normal conditions. Enterprises should pay attention to implementing economic laws and regulations. The leadership of an enterprise should take the lead in learning and enforcing the law and foster the habit of doing things according to the law. In conjunction with the consolidation of enterprises, it is necessary to set up legal advisors or economic law offices for enterprises, or assign full-time legal personnel for them according to actual needs in order to organizationally insure that economic laws and regulations will be implemented. All economic laws and regulations related to enterprise management should be translated into specific rules and regulations of enterprises, or into code of conduct understandable to everyone, and combined with the responsibility system and system of rewards and penalties so that the economic laws will be really implemented in every link of enterprise management. Modern enterprises must have centralized and unified leadership and production command and highly strict labor discipline, which must be framed in the form of plant rules and regulations and guaranteed of implementation. More than ten enterprises in Guizhou Province have already set up economic law offices, which is an attempt to manage enterprises by legal means. Since its establishment, the Guiyang Steel Mill Office of Economic Laws and Regulations has carried out strict performance evaluations according to rules and regulations centering around the economic responsibility system at every level down to the work shifts and teams and individuals, basically insuring that everyone has specific responsibilities, that performance is evaluated, that evaluations have specific standards, and that standards spell out rewards and penalties.

A plant director or manager must have certain legal knowledge, in addition to organizing and managing abilities. Otherwise, no matter how hard he works, the enterprise may suffer heavy losses because he does not know how to use legal means to protect its rights and interests, or may land in a difficult position because it is "legally illiterate" and has violated law and discipline. For example, a bicycle plant in Henan Province was well-known for the Honeybee brand bicycles it produced, but its trademark was not registered. Another bicycle plant registered the trademark at the Industry and Commerce

Administration. As a result, the first bicycle plant could not sell its 40,000 bicycles before changing the trademark to a "Pheasant." However, the trademark it designed was similar to the trademark of the "Phoenix" brand bicycles made in Shanghai. Thus it was charged with violation of the Trademark Law, forced to stop selling and remove the trademarks from the bicycles and made to pay a fine. All these troubles threw the plant's production into confusion and caused heavy losses.

Management of the economy by proper use of economic and legal means and settlement of economic cases and disputes through the economic courts can produce remarkable results. Hundreds of thousands and millions of yuan in frozen funds can be brought back into circulation. Enterprises on the verge of bankruptcy can be brought back into life. Chronic "pinkeye" cases can be readily cured. Even formerly poorly managed enterprises can change their outlooks and find international markets for their products. Take the No 1 Construction Company (a medium-sized enterprise) of Pingdingshan City for example. As of the end of 1982, several contracting units failed or refused to pay without reason a total of 3.2 million yuan of construction funds which they owed the company. The sum was twice the amount of the company's reserve fund. As the company's money ran out, it could no longer keep its work going and had to let its workers take leave because it could not pay their wages on time. On the brink of going under, the company tried several times to get help from higher authorities through administrative channels, but to no avail. The company was forced to go to court. Through legal means, the court heard the case and reached a decision. The money that was owed was quickly collected, and the enterprise was saved.

With the reform of the economic structure, the continuing promulgation of economic laws and regulations and the development in depth of economic contacts with foreign countries, it is inevitable that more and more economic disputes will have to be settled through mediation, arbitration and even litigation, and it will become even more pressing for enterprises to obtain legal help from various sources. To solve this problem, quite a few enterprises have set up a legal consultation system, and the role of lawyers in economic activities has begun to be brought into play. For example, since its establishment more than 2 years ago, the legal advisers department of the Wuhan Iron and Steel Corporation has handled and settled more than 20 economic disputes on behalf of the corporation, collected 2.35 million yuan in legally owed funds, drafted and examined economic agreements and legal documents, provided important professional legal advice and so forth, involving disputed funds totalling 215 million yuan. The legal advisers of an enterprise can make suggestions to the leadership of the enterprise on strengthening management according to law, provide economic and legal consultation services to the enterprise, help investigate and handle major accidents and fight against economic crimes, draft and participate in examining domestic and foreign economic contracts and legal papers and take part in negotiations, signing of agreements and even court proceedings on behalf of the enterprise and effectively protect its legal rights and interests. The establishment of a legal consultant system for enterprises is a necessity in the new situation of economic development. We should regard it as an important part of the work to strengthen the legal system in the economic

field. In actual practice, we can combine the task of establishing an economic legal consultant system with that of setting up legal offices in enterprises. From now on, it is hoped that enterprises which have the conditions to do so will put legal advisers on their staff to handle their own legal affairs step by step, and that enterprises which cannot do so may get lawyers or other legal personnel to act as their temporary or permanent legal consultants. It should be especially required that every economic and trade negotiation involving foreign nationals be conducted with the participation of legal advisers to insure that enterprises will actively import technology and foreign capital and develop foreign trade and economic and technical exchanges within limits permitted by law and on the basis of equality and mutual benefit.

Reform of our economic structure and the development of our national economy badly needs a large number of specialists in economic laws and a large number of managerial and administrative personnel who are knowledgeable in modern economics, technology and legal affairs, capable as organizers and leaders, imbued with a creative, innovative spirit and capable of bringing about a new situation in whatever they do, and who are equipped with a wide range of new knowledge. While training a new generation of directors (managers), chief engineers, chief economic managers, chief accountants and party secretaries, efforts should also be made to train fairly soon large numbers of lawyers who are versed in economic laws, upright and never stooping to flattery and capable of undertaking the heavy responsibility to protect the legal rights and interests of enterprises and their workers and staff members and help enterprises do a good job in management according to law. Thus a mighty contingent of managerial cadres will be formed for the socialist economy, a contingent composed of qualified personnel in all trades and occupations for the whole chain of enterprise management, with whom our legal system in the economic field will constantly advance to new levels and new stages and make new contributions to the four modernizations drive.

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## NATIONAL POLICY AND ISSUES

### JOURNAL VIEWS NON-BANK CREDIT IN RURAL AREAS

HK060901 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 1, 20 Jan 85  
pp 53-57

[Article by Jiang Shiji [5592 0013 0491] of the Rural Finance Research Institute of the Guangxi Zhuang Autonomous Region: "How Are the Various Types of Non-Bank Credits in Rural Areas at Present To Be Treated"--written in July 1984]

[Text] 1. On Nongovernmental Credit and Borrowing in Rural Areas

Nongovernmental credit and borrowing in rural areas is a spontaneous, unorganized form of credit regulation which exists widely among the people. It mainly refers to credit, as a means of mutual assistance, between laboring agricultural households.

In recent years nongovernmental credit and borrowing in rural areas has developed on quite a large scale. This is mainly a result of the speeding up of the two "changes" following the establishment of the responsibility systems in the rural areas. Since the founding of the PRC, the rural mechanisms have always involved centralized production, centralized credit, and decentralized consumption. Thus, on the one hand, nongovernmental credit and borrowing was illegal, or put another way, it was beyond the protection of the law. On the other hand, because the rural households mainly engaged in production for consumption or small family sideline businesses, the need to obtain or grant credit was limited. The establishment of credit cooperatives basically satisfied this mild demand. Although nongovernmental credit and borrowing did not cease, the amounts involved were very small. In recent years, nongovernmental credit and borrowing in rural areas has seen great changes. Not only have the amounts increased greatly, but the use made of credit has changed. Whereas before it was mainly used for resolving livelihood difficulties, now it is mainly used to meet production costs in planting, animal husbandry and processing, and in transportation and sale. As to the interest rates, before there were interest rates or little interest charged, but now there are high interest rates and negotiated rates. These changes have come about since the general implementation of the responsibility systems. The contract households are production and consumption units and are also production operation units. As the commodity economy has developed, the avenues for production operations have increased and the incomes of the rural households have increased in an overall way. In this situation, both the amount of funds needed and the amount

of money received and spent have both increased dramatically, but not in a balanced way. Thus the funds held in store by rural households and the intermittent funds available between the links of production, marketing and operations have increased greatly. There has also been a large increase in the funding required in expanding reproduction, circulation, and improving livelihood. Together, these two aspects show that there has been a great need, both in scope and depth, for a means of regulating the supply of and demand for credit in the rural areas, and this has caused nongovernmental credit and borrowing to be brisk.

In this situation, the rural bank credit system and credit cooperative credit system have not quickly adapted to the new structure of economic change in the rural areas. In regard to the organization and use of funds, the banks hold outmoded management ideas and have outmoded management systems and operating methods. When credit cooperatives began to be operated by officials, they became divorced from the masses. This resulted in an artificial reduction in their position in the rural credit field. The tight money market in Autumn 1983 caused these problems of the banks and credit cooperatives to be further exposed. The cutting off of credit and the reduction of credit forced some of the contract households to seek assistance from nongovernment sources. People also withdrew their deposits from the credit cooperatives further weakening the regulatory capability of the cooperatives. This resulted in the shrinkage of credit supplied by credit cooperatives and an enlivening of nongovernmental credit and borrowing and shows that the present briskness of nongovernmental credit and borrowing is a result of the credit cooperatives not fully bringing into play their role as a source of nongovernmental credit and borrowing.

Faced with the demands of rural economic policies, how are we to treat the nongovernmental credit and borrowing which exists at present?

Some comrades believe that the present nongovernmental credit and borrowing has a socialist nature. This is based on the following: 1) It is beneficial to developing, and does not harm, the forces of production. 2) The use of nongovernmental credit is basically for meeting production, circulation, and consumption needs in a timely way. It is mainly a form of mutual assistance and is generally interest free or involves only a low interest rate. It can thus be said to be under the leadership of state policies. 3) The two sides involved in granting credit and in borrowing are laboring agricultural households. The source of funds is mainly their own labor, which is an appropriate source. I believe that we cannot conclude on the basis of these conditions that nongovernmental credit and borrowing is socialist in nature, but it does show that at present it is necessary to allow it to exist and allow it to bring into play its beneficial role. As to its nature, I believe that the present nongovernmental credit and borrowing in rural areas is a component form of the individual operation. I believe it to be a transitional operational form which supplements the credit supplied by rural banks and credit cooperatives.

Practice has proved that nongovernmental credit and borrowing really has many advantages: 1) it involves credit dealings of a mutual assistance nature between friends and neighbors. It is not intended as a profit-making operation;

2) it is flexible and extensive and its uses are nearly all-encompassing; 3) it is not subject to any restrictions in terms of targets or projects; 4) it is likely to be repaid as the two sides involved in the credit and borrowing know each other and the use of the funds is clearly known. There is mutual supervision and thus the credit situation is good. These advantages are the reason why the vitality of nongovernmental credit and borrowing has not been diminished down through the ages. They are also the major reason why in recent times, the credit cooperatives have been unable to replace nongovernmental credit and borrowing, and the reason we should allow the latter to fully bring into play its role as a supplement in making up the deficiencies of credit cooperatives in supplying credit.

However, nongovernmental credit and borrowing also has some unfavorable effects, the main ones being related to the degree of its vigor, the scope of its activities and the fact that the level of interest rates to a great degree depends on the supply and demand in the funds market. This brings with it a pronounced spontaneity resulting in there being no way to control the scale of rural funds. It is a breeding ground for usury in the rural areas. Thus, in regard to nongovernmental credit and borrowing, the banks and credit cooperatives must utilize economic measures to expand their own service range and must, through organizational coordination and participation, actively provide guidance and draw nongovernmental credit and borrowing onto the planned track. On this precondition, we should allow nongovernmental credit and borrowing to play a supplementary service role in those areas which are not served or not served sufficiently, by credit cooperatives.

## 2. On Usury in Rural Areas

Rural usury is a specific form of nongovernmental credit and borrowing. A socialist society does not permit the existence of the typical forms of usury, usurer's capital or usurers as described by Marx. However, usury as a social economic phenomenon "was produced long before the capitalist production forms, and appeared in extremely different socioeconomic formations."\* But in actual life, on the basis of our investigations, which could be considered to be research into usury, the various forms can generally be divided as follows:

1) In some areas where throughout history there has been a tradition of supplying credit for the purposes of profit, advantage has been taken of the enlivened economy, and forms of negotiated interest rates and profit sharing whereby one person supplies the funds and the other does the work and profits are divided, has appeared. They engage in the supply of credit for the purpose of profit. Its characteristic, apart from higher interest rates, is that the aim of the credit supplier is to make a profit. In order to share in the profits, he covers himself by charging high interests. 2) Some people take advantage of other's urgent need for funds, and employ usury by using the methods of capital plus interest, or additional repayments. 3) Some other people use the method of buying futures when supplying credit. This is a continuation of our nation's traditional method of buying rice shoots so as to achieve high profits even when interest rates are not stale. At present, in order to sort out the credit relationships in the rural areas, and improve the rural credit systems, so as to further serve the development of the commodity economy, it is important that

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\* Marx: "Das Kapital," Vol 3, People's Publishing House, 1975 edition (same below) p 671.

we correctly differentiate between usury and mutual assistance in terms of funds between laboring agricultural households. We should not treat them in the same way. Thus, we must first find a standard for distinguishing usury.

Some comrades advocate an on-the-spot method of distinguishing usury. They suggest the use of an interest rate line, with interest rates above this line constituting usury. This method is simple and easy and it can be taken in hand at the grassroots level. Actually this method has been used in the past but it produced little effect. While usury naturally entails high interest rates, this is but one of the indications. We must also pay great attention to indications of its nature. Our aim is to strike at credit and borrowing which damages production, life, or society. Our aim is not to simply strike at credit and borrowing which entails a high interest rate. Put another way, if we just consider things from an amount indicator, it will be very difficult to set down this interest rate line. This is because the appropriate rate will be affected by the time, the place and the profits obtained by the borrower, all of which can vary enormously. We cannot really express it as a static fixed number. If we set down a general interest rate line, it is quite possible that it would have the opposite effect. On the one hand, there would be credit and borrowing with the danger of usury, because usury if it had an interest rate slightly less than the set line, would be legalized and would be protected. On the other hand, some non-usurious credit and borrowing which had an interest rate slightly higher than the set line would be attacked. In actual life, examples of this are numerous. Thus, just looking at the level of interest rates makes it very difficult to draw an appropriate line. It also makes it very difficult to see clearly the essence of the problem and may even lead to where we become divorced from the aim of striking at usury. But usury is a socioeconomic phenomenon. If something is really usury, its aftereffects will inevitably be fully or partially revealed, and it will be impossible to conceal this from friends and neighbors. If the credit is not usurious in nature, then the two sides in the credit and borrowing transaction, perhaps neighbors, will both be obtaining benefits. Thus, even if the interest rate is a little high, they will say nothing about it. Or else, publicly they will say that they are using a rate in accordance with the line, but behind the scenes they will arrange extra payments. In brief, this type of line will be unable to play a role in distinguishing and striking at usury. In addition, drawing up a line will result in those nongovernmental credit and borrowing transactions which at present have little or no interest charged, being subject to interest, perhaps even high interest, on the pretext of it being the right thing to do. In brief, this method of drawing a line for distinguishing usury brings with it more problems than advantages. We cannot regard normal credit and borrowing between people as usury just because it entails a high interest rate. The aim is to find out those usurers who constantly engage in exploitation through the use of high interest rates and for whom this has become their major economic source, who seriously harm the socialist economy and the peoples' livelihood, and who destroy financial markets. In deciding whether a transaction is usury, apart from quantitative stipulations, there are also qualitative stipulations which are more important as determining factors.

After synthesizing the demands of these two aspects, I believe that a standard for distinguishing usury consists of three components: 1) We should see whether the credit supplied plays a promoting role or a damaging role in regard to the

productive forces. Does it promote, or harm and obstruct, the development of production, supply, and marketing? "Usurers know no other restrictions than the ability of those who need the money to shoulder the loan burden and their ability to resist." (Ibid., p 677) The interest rates demanded by usurers are not determined by profit rates. "They cause producers to fall gradually further into debt, which results in the latter being unable to carry out normal reproduction because of the heavy burden of interest on their backs." (Ibid., p 678) Conversely, interest rates in nongovernmental credit and borrowing have the precondition of allowing the borrower to invest in operations with the prospect of making a profit. This provides the possibility of expanding production, supply, and marketing activities, which in turn leads to the development of the forces of production. 2) We must look at the economic position and situation of the two sides in any credit and borrowing transaction. In nongovernmental credit and borrowing the economic position and situation of the two sides is equal. The conditions of the credit are agreed by the two sides through consultation on a voluntary and independent basis. The two sides rely on each other, each applying his own strong points and each having a role to play. But in usury, the economic position and situation of the two sides involved is not equal. The one who requires credit is in difficulties and is reluctantly swallowing a bitter fruit which goes against his aspirations. The usurer takes advantage of the situation and imposes conditions on the other party which are not of advantage to him and which can even be cruel and exploitative. 3) We should look at the status of the person providing the credit. In nongovernmental credit and borrowing, the two sides are laboring, agricultural households who borrow and lend regularly. A usurer only lends and lives off the interest. This interest accumulates into capital. These three indications include both qualitative and quantitative stipulations. When these exist together, we can definitely say that it is usury. In dealing with usurers, we should strictly suppress them, punish them according to law, order them to return that which they obtained through usury, and stop them from engaging in usurious activities.

Usury does not exist on a large scale in the rural areas at present. But enlivening the rural economy requires the mobilization of more funds through diversified rural credit channels and the use of these funds in developing the rural commodity economy. Nongovernment credit and borrowing is an important form of rural credit. There is an objective demand that we put forward an accurate and concise standard for distinguishing concealed usury from ordinary nongovernmental credit and borrowing. The two should be treated differently. We should give the green light to normal operation of nongovernmental credit and borrowing and, in a timely way, strike at and punish those actions of usury which have appeared, while being vigilant and maintaining a lookout for usury which might appear. In brief, the aim is to enliven the economy and this is the important thing. The aim of punishing and striking at usurious exploitation is to eliminate negative elements, so as to further enliven the rural economy.

### 3. On Commercial Credit in Rural Areas

Commercial credit under the capitalist system, commercial credit as it exists at present in our nation, and commercial credit as it exists in our rural areas are three different concepts. Commercial credit under the capitalist system is "credit mutually supplied by capitalists who are engaged in reproduction. This is the basis of the credit system." (Ibid., p 542) It is a widely-utilized credit system which was gradually formed by the demands of economic development. Our nation's commercial credit, as we have until now not issued negotiable securities and do not have a stock exchange, has had a very limited scale of activity and use, and its role has been much smaller. It is not the basis of the credit system. It mainly manifests credit relationships between enterprises or between enterprises and consumers when, during purchasing and selling activities, the movement of money and goods becomes disjointed. The scale and role of our nation's rural commercial credit is even smaller. Apart from deposit payment in advance and installment purchase which have taken shape roughly and which are accepted by the public, the use of credit has mostly been an emergency measure which an enterprise was forced to take at one place and at one time to meet temporary needs. It was not regularized and did not have a fixed pattern, and sometimes the borrower was unwilling to disclose the matter. It was not paid much attention by any of the sides involved. In the last few years, as the channels of circulation have been opened and diversified, operational forms have come into existence, the role of market regulation has expanded, and there has been a readjustment of the economic structure and the production structure. This has made it necessary for some enterprises to enliven production, transport, and sales at the same time, resulting in daily-increasing briskness in commercial credit between enterprises. This was especially so in 1983 when the money market was tight. This resulted in some unsuitable aspects of bank credit and the account settling system becoming more prominent and the use of rural commercial credit gradually becoming more frequent. Its advantages and problems were also thus fully exposed and this drew people's attention to them. They believed that it was necessary for us to make clear its position and role, and to set down the way we are to handle it.

At present, our nation's rural commercial credit basically involves two major categories--handing over goods and receiving payment later, and first paying for goods and taking delivery later. These two categories include buying on credit, prior payment, using a purchasing agent, using a sales agent, installment payment, deferred payment and a small amount of direct credit. In regard to a number of products, especially those products for which the market is almost saturated and new products, buying on credit, employing sales agents and installment purchase have a definite positive role in opening up sales avenues, developing new sales areas, resolving temporary production and sales hold-ups, clearing circulation channels and clearing away overstocked goods. They can improve the former situation where enterprises have had to face temporary crises, and can enliven the operations of some enterprises, thus promoting the improvement and strengthening of their management systems. This will be advantageous in enlivening the rural economy. Today, when information does not flow freely and the level of enterprise management is not high, it is more necessary to seek help from the above methods as situations arise.

However, at present, some rural commercial credit conceals production and sales contradictions, promotes blind production, diverts bank credit and even provides infusions for enterprises which should be closed down. Also, because the credit system has not yet been formed, each goes his own way, and sometimes disorder and failure to honor commitments occur. Thus, while fully utilizing its beneficial role, we must carry out readjustment, provide guidance, and make choices so that rural commercial credit gradually comes onto the correct track. For example, there are those who engage in disguised fund diversion through direct credit dealing between enterprises or through advance payment, sales agents, and so on. This is very serious. Essentially, it is the reallocation of credit funds, divorced from the state's credit policies. That is, it is the reallocation of funds and goods and materials outside the state plan. This results in some enterprises steering clear of obtaining credit from banks which harms the role of banks as a credit lever and as a way to regulate, promote, and control credit. The enterprises also avoid bank supervision of credit. This is especially so of those enterprises which should be closed down but which obtain infusions of rural commercial credit and continue to exist as crippled operations, wheezing along. This disrupts economic readjustment. Some conceal contradictions between production and sales through buying on credit and selling on a commission basis. They create the impression that they have brisk sales or can realize brisk sales, and thus they promote blind production and harm the readjustment of the product structure. There is also jostling for credit between enterprises, but then the funds are used indiscriminately and the enterprise gets behind in repayments. This results in the enterprise's operations management being thrown into disorder. We must carry out a qualitative analysis of these commercial credit activities, decide which to use, and allow that commercial credit which is beneficial to play a role as a supplement to bank credit. As to that commercial credit which is harmful, the banks should provide necessary restrictions and suppression through normal credit supervision. At the same time, they must strengthen and expand service in terms of bank credit and improve the account settling system so as to satisfy the normal requirements of enterprises in their operations.

#### 4. On Credit Supplied by Rural Credit Cooperatives

The Draft Regulations for Demonstration Rural Credit Cooperatives promulgated in 1956, clearly stipulated that the aim of developing credit cooperatives "is so that the laboring people themselves can use their funds in mutual help and cooperation, in coordination with the state bank's rural credit work. In terms of organizing and regulating funds, they will support agricultural production, stabilize rural finances, restrict rural capitalist elements and eliminate capitalist usurious exploitation in the rural areas." Since the credit cooperatives are organizations where the laboring people themselves can use their funds in mutual help and cooperation, their credit and borrowing is naturally nongovernmental credit and borrowing. It is an organized form of nongovernmental credit and borrowing which is under the planned leadership of the state. The credit cooperatives were supposed to carry out full regulation of credit and borrowing. In theory, on the one hand, the people would not need to seek credit outside the credit cooperatives, and on the other hand people would not have sufficient funds to be able to provide loans. Practice over the

last 30 years has shown that the rural cooperatives have a clear role to play in nongovernmental credit and borrowing. However, credit supplied by credit cooperatives is subject to planned state guidance. It is an organized form of credit and borrowing. The use of the credit, the amount, the approval, and even the interest rate must have certain necessary limits and restrictions. Thus, it is unable to replace that nongovernmental credit and borrowing which encompasses nearly all types and forms and which is transacted mainly as mutual assistance between friends and neighbors. However, in the times when credit cooperative work is being carried out normally the areas involving nongovernmental credit and borrowing, the amounts involved, and the influence of this type of credit will be small and will only serve as a supplement to credit cooperative credit. In recent years, there has been great development of nongovernmental credit and borrowing in rural areas. In many areas, the range of credit and borrowing and the amounts involved have approached or surpassed the levels of the local credit cooperatives. This is mainly because the credit cooperatives are the same as the state banks in terms of business policies, operational forms, economic accounting and in their treatment of their staff. Thus, they have lost their mass nature, their democratic nature, and their flexibility and have become officially managed. As credit cooperative credit and borrowing has come to gradually emulate that of banks, it is no longer nongovernmental credit and borrowing. Its role as nongovernmental credit and borrowing is diminishing, producing a shrinkage in credit supplied by credit cooperatives. The situation in various areas indicates that development in credit cooperative business is precisely and inversely related to the degree of vitality in nongovernmental credit and borrowing. As credit cooperative business declines, nongovernmental credit and borrowing becomes brisk. The credit cooperatives must urgently carry out reform and correctly run cooperative financial organizations which have a mass nature. They should revive their original true features of nongovernmental credit and borrowing and really play a role in this regard. They should become the major component of the rural credit system. Only under this precondition can they truly bring into play their role in nongovernmental credit and borrowing, and their role in guiding nongovernmental credit and borrowing, and punishing and striking at usury. If we wish to enliven credit supplied by credit cooperatives, the basic avenue is to revive their mass nature, democratic nature, and flexibility so that they can truly become collectively-owned financial organizations and independent economic entities. The organs must be small and numerous so that they can be near the peasants and conveniently supervised. Under the leadership of state financial policies and planning intentions, there should be flexibility in important matters in terms of business scope, operational forms, and working procedures. In the organization of funds, it is important to pay attention to the fact that since the reform of the rural structure, the contract households are composite entities which consume, produce, and engage in circulation. Thus, it is necessary to change the former situation where attention was only paid to the area of consumption and was restricted to absorbing those stored funds awaiting use. It is necessary to strengthen service and to absorb those intermittent funds in the course of production and circulation. In order to do this, it is necessary to provide many channels and many forms, and increase the deposit forms by starting up specialized deposits and rural trusts. Attention should be paid to organizing long credits through fund-raising



activities. The credit cooperatives and the various businesses and enterprises in the rural areas should establish a relationship of wide-ranging dealings, and organize the funds which are in all sorts of different situations. In the utilization of funds, it is necessary to expand the range of use. If a source of funds is permitted, and it is an appropriate project for nongovernmental credit and borrowing, it can be considered as being within the business scope of the credit cooperatives. As to interest rates, the range within which they float should be expanded and they may range up to twice the interest rates charged by banks. If things are done in this way, and the scale of credit supplied by credit cooperatives is expanded, and control over investment direction is also broadened, will it affect state planned management, credit equilibrium, or currency stability? I believe that, on the one hand, if credit cooperatives can organize sufficient rural funds and they can take in a large amount of funds and supply a large amount of credit, the above-mentioned problems will not occur. Also, if we rely on bank credits, the banks will be able to exercise appropriate control and again the above-mentioned problems will not occur. On the other hand, I believe that if the credit cooperatives do not provide credit or provide only a little credit, nongovernmental credit and borrowing will replace them. The amount of rural credit, however, will remain the same and will not decrease. Thus, the cooperatives will yield their position to the unorganized activities of nongovernmental credit and borrowing which is not as desirable as credit cooperatives acting in a planned way.

In the past, under the guidance of "leftist" ideas, it was stressed that credit should be handled in a centralized way by banks. The role of nongovernmental credit and borrowing in the development of the rural commodity economy was ignored. In regard to this, the credit cooperatives must carry out major reforms and really fulfill their role in nongovernmental credit and borrowing. Only in this way can the credit cooperatives possibly become the major component of the rural credit system. And only in this way can they have the strength to use economic measures in guiding nongovernmental credit and borrowing, and punish and strike at usurious actions. In this way, we will be able to form a multilevel rural credit system which is guided by bank credits and in which credit supplied by credit cooperatives is the main part, and ordinary nongovernmental credit and borrowing acts as a supplement as the occasion demands.

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## NATIONAL POLICY AND ISSUES

### REPORT ON RURAL DEMOGRAPHIC TRENDS

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[Article by Zhang Yulin [1728 7183 2651] of the Sociological Research Institute of the Chinese Academy of Sciences--"The City-Town-Village Network and the Overall Distribution of Small Towns"--written in October 1984]

[Text] Following the rapid development of the national economy, especially the rural economy, far-reaching changes are occurring in our nation's economic and social structure both in the urban and rural areas. A clear indication of this is that a large number of small towns are springing up in the areas which have seen successive years of bountiful harvests. According to civil administrative departments' statistics, in June 1984 there were 5,698 towns in the country. It was estimated that by the end of the year there would be about 10,000.

With this situation, how to do well in rational distribution of the small towns so as to carry out construction in a planned way in line with key points is a pressing problem in the course of our nation's socialist modernization. The correct resolution of this problem will have great significance in promoting the interflow of funds, goods and materials, personnel, technology, and culture between urban and rural areas; in speeding up the development of the commodity economy; in breaking down blockades between departments and regions; in promoting sealed off and semi-sealed off villages to become open villages; and in promoting the in-depth development of the urban and rural structural reforms. On the basis of the knowledge gained in our investigative research into small towns in Jiangsu Province over the last year or so, if we are to do well in the distribution of small towns, it is first necessary to have an understanding of the whole city-town-village network and to arrange the towns within the city-town-village structure.

#### The Concept of Small Towns

According to the 1979 "Decision of the CPC Central Committee on Several Questions Related to the Speeding of Agricultural Development," the "small town" referred to county seats and reasonably developed market towns and commune seats below the county level, as well as those satellite towns built in the rural areas surrounding large cities.

At present many people are unanimous in the idea that ordinary market towns and commune seats should be considered rural areas. However, in regard to the question of where county seats and those reasonably developed towns below the county level which have established urban systems belong, there are differences of opinion. Some believe that they should be considered rural areas, while others believe that they should be considered urban areas. Others hold that they should not be considered rural areas or urban areas, but a transitional region between urban and rural areas. The differences in view reflect differences in the basis from which they proceeded in their research. But those towns over which there is dispute, most of which are small towns, have an important bearing on the overall distribution and construction of small towns. Thus, we should first clarify this problem.

I believe that, apart from a small number of relatively developed county seats, the remainder are rural centers. Thus, we should proceed from rural economic and social development in studying and planning the distribution and construction of small towns. The reasons are as follows:

Towns, as a particular type of community (community is a sociological concept meaning a social entity restricted to a particular area such as a village, a town, or a city) have formed and developed over history. The concept of a town is a historical category. After liberation, our nation's administrative system firmly regarded county seats and communities below the county seat level which have an urban organizational system as the lowest "urban" level. The regulations for establishing urban organizational systems formulated in June 1955 and revised in December 1963 used population figures and the industrial structure as the bases for determining urban areas. The specific regulations at that time were as follows: Towns can be established in areas which have a population of over 3,000 people, of which over 70 percent are urban dwellers, and in areas which have a population of 2,500 to 3,000 people, of which over 85 percent are urban dwellers. Under these specific policies some town residents ate state-marketed grain and, in the recruitment of workers and in employment, were treated as urban dwellers. Only in terms of urban construction funds did the towns differ from the cities.

At that time there was a basis for viewing towns at an urban level. First, the towns in those days were basically all legacies of history. They had a certain portion of the population engaged in commerce and handicrafts. These people were without land and did not participate in the land reform or agricultural cooperativization movements. The state supplied them with the major livelihood necessities such as grain, oil, and cotton, in accordance with urban population standards. The state also arranged employment for them in the urban area. Second, because the division between urban and rural industries at that time was relatively rigid, the villages mainly engaged in planting and animal husbandry, while the urban areas engaged in industry, commerce, the service trades, and similar industries. The towns were communities where industry, commerce, and the service trades were centralized. Thus they were considered to be in the same category as cities. During the 1970's, in areas close to large and medium-sized cities, such as in the Chang Jiang Delta in southern Jiangsu, although commune and production brigade

enterprises were operated, more and more surplus labor was diverted to non-agricultural production sectors and other sectors. A mixture of urban and rural areas occurred. But because grain was in short supply throughout the country, it was not possible to increase by a large number the population supplied with state grain, nor was it possible to open grain markets. Thus, enterprises were unable to enter the towns, labor was unable to enter the towns, and there remained a wide gap between towns and rural areas.

The above "reasons" and conditions have seen basic and essential changes:

1) The grain production situation has changed. The overall national grain situation has changed from one in which there was a long-standing grain shortage to one in which we overfulfill our low standards. This has provided conditions whereby the peasants are coming to the towns and looking after their own food grain needs. If we achieve a further abolition of state monopoly in purchasing and marketing of grains and oils in the future, then at that time the dividing line between the urban and rural population will become less rigid and household registration will no longer be the essential basis for dividing urban and rural areas. 2) The production structure has changed. As industry and commerce has become more developed in the rural areas, it has brought appropriate changes in the structure of the labor force and changes in the composition of the community. Using Jiangsu Province as an example, the industrial output value of commune and production brigade enterprises throughout the province totaled 16.209 billion yuan in 1983. This provided 45.5 percent of the total rural output value. In that year, the rural labor force engaged in industry within the province grew to 4 million persons, 20 percent of the total rural labor force. Because of this, the composition of the community also saw changes in the rural areas many places where industry and commerce came together appeared. In order to accord with this development and change in the economy and society, the state has allowed peasants to enter the towns (including county seats and other towns with urban organizational systems), provided they can look after their own food grain. They engage in industry, commerce, and the service trades and settle in the towns. Since this has been allowed, the former standards for differentiating urban and rural areas in this type of town community have become more indistinct daily. If we continue to take towns as the lowest urban level and we take town-village as the division between urban and rural areas, then many concepts will become indistinct and many problems will be encountered in our actual work.

Under our nation's socialist conditions, we can effectively avoid the tragedy which occurred in the early period of industrialization in capitalist countries and which is currently occurring in many Third World countries whereby rural areas become destitute and bankrupt peasants flow into the cities. The correct policies since the 3d Plenary Session of the 11th CPC Central Committee have pointed out the road for the rural areas to follow in making production socialized, specialized, and of a commodity nature, and in achieving daily-increasing prosperity. The rural forces of production will, with the support of the cities, develop at the same pace as the urban forces of production, and the rural economy will become a comprehensive economy with many sectors. The peasants will become workers, businessmen, and other non-agricultural laborers in large numbers, and agriculture will modernize so that knowledge is

concentrated, technology is concentrated, and there is high efficiency. Following the changes in the level of the agricultural forces of production, in the industrial structure, and in the composition of the labor force, in the expanded rural areas it is inevitable that collective communities which have industry and commerce at their core and which have an economy which is multifaceted will appear. The rural labor force and population will gradually come to collect in communities like this. These will be rural areas and towns at the same time. This type of urbanized rural area has already appeared in southern Jiangsu and other such economically advanced areas. It seems inevitable that in the not too distant future this will occur all over the country. As the rural areas advance along the road to urbanization, the concept of rural areas has already begun to change. We should not use former concepts in differentiating urban areas and rural areas, nor should we simply refer to those communities which do not conform with our conceptions of urban and rural areas as "transitional zones." We should see these new communities as organic component parts of the urbanized rural areas. In line with this, we cannot just use urban population as an indicator in measuring the national urban level. We should have a new system of comprehensive indicators. This is a matter requiring specialized research. At present, before there is a general urbanization of the rural areas, the first things to appear will be economic and social centers. In regard to this, the party Central Committee and the State Council put forward directives on building small towns, and in 1984 they put forward requirements "that towns be gradually built and become economic and cultural centers in the rural areas," and that the original commune and production brigade enterprises be jointly referred to as "rural town enterprises." This is a beginning, in terms of concepts, in breaking through the original divisions between villages and towns.

When it is clearly understood that towns are rural centers and that they form an entity with rural areas, then we will be able to proceed from the development of the rural economy and society in studying the distribution of towns. Of course, this certainly does not mean we will overlook the influence of the cities. If there was no influence from the cities, there would be no rural modernization or urbanization. The rural areas are the bases on which small towns emerge, while cities are essential for their emergence. Small towns are the products of rural areas which have been gradually urbanized under the influence of the cities. This is not like a small number of advanced countries where the towns are decentralized areas of cities which have expanded to an excessive degree. This is the basic starting point in our research into the question of small towns.

What has been discussed above is towns below the county seat level. As to the county seats, it is important that we look at the relationship between their economic and social lives and the rural areas. Their relationship with cities is also important. In regard to the former relationship, the county seats, like those towns below them, are rural centers. In regard to the latter relationship, the county seats can become the lowest level of a city. The suburbs of large cities are similar in these regards.

## The City-Town-Village Network

Towns are organic component parts of the rural areas. Their development is directly related to the development of the forces of production in the rural areas. Because there are differences in the degree to which rural production has been made specialized, socialized, and of a commodity nature, the scale of various areas where specialized production has been centralized and their influence on the surrounding rural areas inevitably differ. Thus, this type of urbanized community naturally has different levels. Seen in terms of Jiangsu, there are four levels:

1. As center of a hamlet or a number of hamlets. They contain some centralized small-scale commerce and service industries. They service the daily lives and production of the masses living within 3 to 5 li. Although the variety of their commodities is not great and the service quality is not high, because they are in close proximity to the rural households, the masses find them convenient. These centers also centralize some simple industrial and handicrafts industry which are run by the hamlets, by a combination of rural households, or as individual operations. These operations can absorb some surplus labor and provide employment or part-time employment to those who are unable to leave their families by having them use their spare-time to engage in industry or sideline production. This also assists in resolving the problem of looking after the old and the young at home.
2. As center of a village [xiang 6763] (or commune): In general, they are the sites of the village government or the commune management organ. In Jiangsu, there are both villages and communes, and the communes are still economic entities. They have a certain degree of commune-run industrial and commune enterprises, supply and marketing cooperatives, grain, and financial departments and so on. Thus they form a level as an economic center. Following the development of the socialization and specialization of agricultural production, the communes are utilizing their own economic strengths and are developing enterprises to serve agriculture both before and after production. This has resulted in them becoming a series center level, serving agriculture both before and after production.
3. As a center of a medium-size district which includes several villages (generally with about 100,000 people) and which has reasonably convenient transport and an industrial and commercial area (this area is, generally a village center for several villages). They have relations with quite a wide region, and quite a number of commodities are distributed from these district center, resulting in flourishing markets. In the words of the masses: "If you want to buy something here you can buy it, and if you want to sell something you can sell it." In northern Jiangsu, in the areas where regular periodic markets are retained, on market days up to 10,000 people attend. The superiorities of the market in turn promote the development of industry and commerce. Thus, generally all of these central areas are centers for a large number of industrial and commercial enterprises. Also, some counties set up county managed enterprises in these places. Under the situation of a division between government and enterprise functions, some village (commune) enterprises have broken down the regional divisions between villages (communes) and taken the initiative to set up this type of center in order to strive for better economic benefits.

4. As a center for the whole county. In Jiangsu, a county has a population of 500,000 to 800,000 people and the county seat is the political and cultural center for the whole county. If it is in an appropriate position and there are no large or medium-size cities nearby, the county seat also acts as the economic center for the whole county. If the county seat is not in an appropriate position, the real economic center may be in a place outside the county seat. If the county seat depends greatly on large and medium-size cities, then, like the regional centers, it will be closely bound to the large and medium-size cities. Thus, the county seat, on the economic level, will be nothing more than an appended regional center and it will not differ greatly from other regional centers.

The above four levels of a rural center linked with the large and medium-size cities forms the general prospect for the city-town-village network in the present period.

The formation and development of a community is, in the end, determined by its economic interests and its social interests. Our industry, commerce, service trades, and even our cultural and educational undertakings are centralized or decentralized in accordance with the region. Centralization provides the benefits of increased scale and coordination, while decentralization allows proximity to the masses and is convenient for the producers and consumers. In terms of pure commerce, that is, wholesale commerce, centralization provides quite great economic benefits. Marx in "Das Kapital" pointed out: "A phenomenon which occurs more frequently in commerce than in industry is that for the same function, regardless of whether it is completed on a large scale or a small scale, the same amount of labor time must be expended. Thus, in terms of history, the phenomenon of centralization appeared earlier in the commercial profession than it did in the industrial workplace." (Marx: "Das Kapital," Vol 3, People's Publishing House 1975 edition, p 329) He illustrated this by saying: "The cost of 100 small jobs is incomparably higher than the cost of one large job. The cost of operating 100 small warehouses is incomparably greater than that of operating one large warehouse, and so on. The minimum amount of transport funds necessary to enter the commercial profession will increase with decentralization." (Ibid) Marx was talking here about the centralization of funds and the fact that those enterprises which have much capital and equipment want to establish themselves in places which are quite high-level. This inevitably brings with it centralization in zones. However, other factors also produce restrictions and it is not advisable to become excessively centralized. For example, storage, processing, and wholesale facilities for rural sideline products should be quite close to the production areas. As for perishable items like fresh fish and mushrooms, necessary transportation distances should be kept short. Industrial wholesale operations should also be quite close to the retail businesses. Thus, we should also seek suitable decentralization. There is no doubt that we must do our best to have retail businesses near consumers, and thus the general trend will be towards decentralization. However, after decentralization the number of commodity varieties will be accordingly reduced. We will have to centralize a large number of commodities in department stores and sell high quality commodities. This will require appropriate centralization. Industry will also experience these two trends. The small-scale industries and handicrafts

industries will be decentralized in the vast rural areas so that they can fully absorb the spare-time labor of the peasants in the vicinity and use it in industrial production. The labor force will live in the village and go to the enterprise to work. This will be convenient for the laborers themselves, as they will still be able to look after agricultural work and family tasks. At the same time, it will also reduce the investment required in establishing the factory and the expenses involved in production. However, highly organized industrial enterprises require good conditions in regard to the supply of water, heat, and electricity. This means that they need to be centralized in appropriate places, as this will be beneficial for realizing a large number of combinations between enterprises and the development of mutual coordination in a division of work. As to cultural, educational, and health undertakings, centralization has the advantage of raising the quality, while decentralization has the advantage of making them more generally available. The effect of the two trends of centralization and decentralization will inevitably result in industrial, commercial, and service industries as well as cultural, educational, and health undertakings of different levels being centralized at different administrative levels. This will result in the formation of a regular, ordered ladder from the rural areas to the cities forming a city-town-village system or network. On the one hand, we need to centralize to a high degree the large and medium-sized cities. On the other hand, we need to achieve network points which are centralized to different degrees. In this way we can ensure that the rural areas have centers and that the cities are able to stand by themselves. Thus we can achieve a tight alliance between urban and rural areas. We should carry out construction in a planned way in accordance with these objective needs.

#### Open-Style Rural Areas and Small Socioeconomic Zones Which Have Towns as Centers

Following the changes in the rural areas and the establishment of the city-town-village networks, our nation's vast rural areas are evolving from isolated and semi-isolated rural areas into open-style rural areas. This is a condition for the modernization of the rural areas and also one of the clear indications of a modern rural areas. Now we wish to probe further. What is the basic community structure of the open-style rural areas? How does such an area cause a town contained within it to become its center?

The basic characteristic of isolated and semi-isolated rural areas is that there are small individual rural communities separate from one another. During the process of socialist transformation, we transformed the small-scale rural economy, realized the cooperativization of agriculture, and changed the situation where small-scale farming families were units mutually isolated from one another. But because the level of the rural forces of production was very low and especially because of the influence of the national economy ideology over a long period and "leftist" policies, the development of the commodity economy was restricted. Therefore, there was no change in the self-sufficient and semi-self-sufficient nature of the rural areas, and there was no basic change in the isolated and semi-isolated situation of the rural areas. Apart from a small number of economically advanced areas, the rural areas at that time were self-sufficient or semi-self-sufficient areas divided into cooperatives (later



production brigades). Although within the cooperatives there occurred a technological division of labor, there was little interaction between cooperatives. To a great degree, they were isolated. The separation between urban areas and rural areas was even more serious. After the 3d Plenary Session of the 11th CPC Central Committee it was affirmed in theory that the development of commodity production was an indispensable, inevitable process in developing our nation's socialist rural economy. At the same time, a series of important reforms were carried out, developing commodity production and exchange. Following the development of the commodity economy, our nation's rural areas are now in the middle of an important transformation whereby they are changing from an isolated and semi-isolated situation into open-style rural areas.

The basic community structure within isolated and semi-isolated rural areas is that of the village. Social interaction between people is mainly carried out in the villages between friends and neighbors. It was precisely because of this that, in the past, social science workers were able to obtain a basic understanding of the rural area after dissecting a village. However, now, and especially in the future, this method will not be enough. A village may be, to different degrees, like a residential area of a city. The people live in the residential area but their activities far exceed these bounds. The rural areas have been "opened." The basic characteristic of open-style rural areas is that economic and cultural centers are formed at different levels and dealings between people mainly take place in these centers. The rural areas surrounding these centers form close horizontal and vertical relationships with the centers and with other rural areas. These relationships are mainly not administrative relationships or relationships between friends and neighbors (such relationships do exist but not on a large scale), but are relationships in the economic and cultural spheres.

By carefully analyzing the many types of relationships between people, we can see that under conditions of a large-scale commodity economy people's activities center around the production, supply, and sales of commodities. The greatest frequency and amount of movement by people is produced by their following the circulation of commodities. Under the present specific conditions, information, technology, and culture to a great degree follow in the steps of the people. In areas where commodity circulation is not free and where people's activities are restricted, the flow of information, technology, and culture is also restricted. Thus, in studying the community network of open-style rural areas it is necessary to use the commodity circulation network as a base. In places where commodity circulation is centralized, it is natural and likely that large commercial industry communities or industrial commerce communities will be formed. These places will become the centers of information, technology, and culture, and thus will become centers for dealings among people. That which deserves serious analysis is the third level mentioned above--those regional centers for several villages with a population of over 100,000 people.

As stated previously, both economic and cultural activities are subject to the two trends of centralization and decentralization. The above regional centers have both the superiority of appropriate centralization and the advantage of being close to the surrounding masses. According to our investigations in Wujiang [0702 3068] County in southern Jiangsu and in Xinyi [2450 3085] County in northern Jiangsu, the service radius of the regional centers is about 20 li.

Using modern rural transportation, traveling this distance takes about an hour, and thus they can be said to be fairly convenient. Many peasants, especially the young and strong, can do things in the lower level centers, but they prefer to go to the regional centers to do business. Here the conditions for purchasing are quite good, and if one wishes to sell things there are many customers and purchasing organs. Also, they enjoy better social services here than they do in other rural towns. For example, they can watch movies, set fresh, tasty food, and young women can have their hair permed in a modern style. Many areas retain their regular, periodic markets and on market days they are exceptionally busy. Thus the regional centers have been able to achieve large purchase and sales totals and accumulate a great amount of funds. By this means they have been able to build large warehouses and freezers as well as other circulation facilities. They are able to set up a great amount of industry. At the same time, the counties' educational departments have set up senior middle schools (most villages only have junior middle schools). The health departments have set up medical organs superior to village-level hospitals (in Jiangsu these are called prefectural hospitals). The scientific and technical departments have taken advantage of the market periods to hold series of lectures. In this way the comprehensive effects of the many and varied social and economic activities cause the villages to become the largest centers for dealings between the 100,000 or so people who surround them. The development of transport and municipal administration is also faster than that of the lower administrative levels.

This sort of center is the "high platform" of the rural areas, that is, it is a place where production and living conditions are between the average in the rural areas (including ordinary market towns). Naturally, they also are the places most likely to be influenced by the culture of the cities and to have close relationships with the cities. The influence of the cities on the rural areas (this is sometimes referred to as radiation) is not like that of the sun which radiates equally on all areas. Rather, it is like a flying bird which selects the highest branch on which to perch. These regional centers are these "highest branches." As the economic and cultural advantages of the cities and the rural labor force and material resources join together in greater numbers in these centers, it will promote the modernization of the rural areas and be beneficial to the development of the cities.

Of course, compared with the regional centers, the county seats are larger and their influence is wider. However, because they are separated by great distances from many places in the county, these county seats cannot be centers for the people to conduct their daily dealings, except for the people in nearby areas. We cannot view an entire county as the basic community in the open-style rural areas. We should see a regional center and its surrounding rural area as an entity, as the basic community in the open rural areas. Here I refer to them as "small rural socioeconomic zones." This sort of small socioeconomic zone is a very different from the zones which are set up as administrative divisions. We should see these as socioeconomic entities, but there is need to establish zone governments. We should avoid increasing the administrative levels, so as to avoid producing new regional divisions.

## Several Problems in the Distribution, Planning, and Construction of Small Towns

The above analysis of the city-town-village network and the community structure in the rural areas is directly related to the problems of distributing, planning, and building small towns. We can discuss these problems as follows:

1. Distribution and planning: The city-town-village is a comprehensive system and we should carry out construction in a planned way. We should proceed from the development of the rural areas, link them with the cities, and do well in the overall distribution of the county seats and the small towns below that level. The position of the county seat is fixed and, barring unusual situations, it is very unlikely that it will be moved. The towns below the county seat level are in the process of development and they need to be rationally arranged. Thus the key point in distribution will be the town which is the regional center. When arranging the position of a regional center, we should consider the following: 1) The scale of the surrounding rural areas with which it has relations and the size of the population; 2) the level of development of the surrounding rural areas and the development prospects in the near future; 3) whether its position is reasonably appropriate and whether it is convenient for the masses living around it to come to the town; 4) whether or not it has certain transport conditions and whether its connections with the cities are convenient. However, transport conditions can be changed. In the future, rural communications and transport will mainly rely on the road network. The distribution of regional centers should mainly be based on the first three conditions. There should not be excessive concern with transportation conditions. Otherwise, if overly centralized towns are formed only along the railway lines or on river banks, there would be too few towns for the vast rural areas and this would not be beneficial to the development of the overall rural areas.

On the basis of doing well in distribution, it is necessary to plan for the town's construction. The need to develop the surrounding rural areas' commodity economy to readjust the product structure, to transfer surplus labor, and to build spiritual civilization should be the basis. We should not talk just about the town. In Jiangsu we saw that much of the town construction planning at present is formulated on the basis of the development of the town itself. This sort of planning does not accord with the needs in developing the rural areas and this should be pushed further forward.

2. In accordance with the needs of economic and social development we should carry out construction both in a planned way and by focusing on key points. There are currently a certain number of places where two trends exist. The first is to set up an isolated county seat and to use most of the urban construction funds on the county seat. All of the county-managed enterprises are placed in the county seat and excessive investment is put into the county seat by departments. The second trend is to distribute the funds equally to all the units below the county seat on the basis of administrative divisions (villages). Each village also has a whole set up organs such as a supply and marketing cooperative, a grain management station, a bank, a post office, and industrial and commercial management departments. The former trend is not

beneficial to the development of the entire country and the latter scatters funds and manpower. A suitable method would be as follows: The county should be seen as one entity and the county seat and several regional centers should be taken as key points in construction. Many economic and cultural undertakings will take one of these key points as their center and in a planned way will form a rational network. For example, in regard to the supply and marketing cooperative, it may be possible to establish a cooperative in the regional center and then form a rational supply and marketing network in the surrounding areas. There is no need to establish cooperatives in every village and thus disperse strengths. In this way, greater economic and social benefits will be obtained. In addition, in building the county seats and regional centers it is necessary to go all out in absorbing funds and manpower from the rural areas. For example, those commune towns in the southern Jiangsu area are developing faster than those central towns which already have a town system. The reason for this is not that the commune towns have greater superiorities, but rather that they are relying on the rural labor force and material resources in building their towns. The towns which have town systems are restricting the entry of the rural labor force and material resources into the town. This lesson is well worth bearing in mind. Also, it is necessary to truly achieve a division between government and enterprises functions. County-managed enterprises need not be situated in the county seat and village-managed enterprises can be shifted outside the village to the regional center or the county seat. All of the above should be channeled into the comprehensive reform of the county.

3. The question of standards in establishing a town system. There are two ideas on establishing a town system. The first is that a town system can be established wherever a certain population and a certain number of industrial and commercial enterprises are centralized. The other idea is that a town system can only be established in a county seat or a regional center. Our view tends toward the latter idea. The gradual urbanization of rural areas and the establishment of town systems on the administrative level are two different things. Establishing a town system is intended to strengthen the position of the town on the administrative level so that it has the strength and power to manage well the enterprises and undertakings which have been established in the town. This is especially so in the case where there are divisions between regions. For example, in organizing the political and social life of staff members and workers and in promoting the coordinated division of work between enterprises, it can bring into play their collective superiorities, and so on. The establishment of a town system is also so that the town will have the ability and power to put forward overall plans for its development and implement them. According to the stipulation of the Constitution, towns and villages are at an equal level. But according to the above actual needs, in terms of setting up organs, in cadres allocated, and in administrative power, the towns should be at a much higher level than the villages. Thus we advocate that organized town systems should not be set up in a large number of places, but the organs which are set up must be truly capable of satisfying the above requirements. In the process of the gradual urbanization of the rural areas, if we

change those communities which have a certain number of industrial and commercial enterprises and a certain number of people into towns, then to a large degree we will only be changing their names. We would not be resolving the basic problems. If we are to reflect the degree of urbanization by establishing more towns with organized town systems, then we should set up central towns in central areas. We should not treat all areas equally. In this way we will not restrict the development of the towns. In fact, quite the reverse will occur. This is in order to strengthen the building of central towns so that we can further promote the development of the overall rural areas, including those low-level urbanized communities, and hasten the process of the urbanization of the rural areas. Thus we will be able to hasten the progress of rural modernization.

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## NATIONAL POLICY AND ISSUES

### SYMPOSIUM ON SUN YEFANG'S SOCIALIST CIRCULATION THEORY

Beijing GUANGMING RIBAO in Chinese 18 Nov 84 p 3

[Report by Huang Renqing [7806 0088 3237]: "Roundup of Symposium on Sun Yefang's Socialist Circulation Theory"]

[Text] The Symposium on Sun Yefang's Socialist Circulation Theory, sponsored by the Finance, Trade and Economics Institute of the Chinese Academy of Social Sciences and the editorial department of the CAIMAO JINGJI [FINANCE, TRADE and ECONOMICS], was held in Nanjing City on 12-17 October 1984. The comrades who attended the symposium unanimously affirmed Comrade Sun Yefang's tremendous historical contributions in taking the lead in criticizing the "theory of natural economy: and the "no-circulation theory" and in suggesting that socialist circulation is still an independent economic process and that attention must be paid to a series of tenets and principles on the law of value, economic accounting and economic results. The comrades had a lively discussion on the following questions.

#### Socialist Circulation and Commodity Economy

To study the socialist circulation theory, we must start from a correct understanding of the nature of China's socialist economy, and this is the only way to establish a socialist circulation theory with Chinese characteristics. Many comrades expounded from the angle of the unity of theory and practice that China's socialist economy is a planned commodity economy based on the public ownership system.

The comrades held that a commodity economy is the abstraction and generalization of the overall economic relationship between commodity production and commodity exchange. Since we recognize that a socialist society practices commodity production and exchange, we should recognize the fact that a socialist economy is still a commodity economy.

Some comrades further expounded that to establish an economic management system suited to China's conditions, we must first of all properly resolve the relationship between a planned economy and a commodity economy. 1. Socialist economy is a commodity economy. This is an objective reality. Because, in society as a whole, commodity production and exchange is the main part of socialist production and exchange, while self-sufficient production of goods makes up only a small part. The relationship between commodities and money and the role of the law of value are widespread in our economic life and have

the tendency to keep expanding with the growth of the social productive forces and the rising degree of socialization of production. 2. Recognition of socialist economy as a planned commodity economy does not mean negating the planned economy. Planned economy and commodity economy are observations of the nature of socialist economy from different angles. They are two different aspects of the same thing. Commodity economy is in contrast to natural economy and the imagined communist product economy of the future, and planned economy is in contrast to the capitalist anarchic market economy. Socialist economy is economy built on the basis of socialist public ownership, which engages in commodity production and exchange and is managed in a planned way, that is, a planned commodity economy. Therefore, the relationship between planned economy and commodity economy is not one of mutual exclusion and denial. The view which equates commodity economy with capitalism and regards it as opposed to planned economy is wrong.

### Socialist Circulation and Planned Economy

The comrades held that social production is unity of production and circulation. Linking with production on the one hand and consumption (including productive consumption) on the other, circulation is the intermediary between production and consumption. Our production is planned, and the problem lies in circulation. Therefore, the major problem a socialist planned economy must solve lies not in the direct production process, but in the process of material supersession among the millions of productive enterprises in society and in individual consumption, that is, the circulation process. By pointing out that the key to planning lies in circulation, Comrade Sun Yefang grasped the crux of the matter. In the past, our planning laid particular emphasis on controlling production and allocation of goods with quotas. As a result, the planning problem has remained unsolved. To reform the planning system, it is necessary first of all to solve the circulation problem.

Some comrades questioned the validity of this theory. They held that the key to planning lies in effective macroeconomic control, constantly and consciously maintaining rational proportions between accumulation and consumption, between agriculture, light industry and heavy industry, between departments and between regions and striking an overall balance of finance, credit, commodities (including the means of production) and foreign exchange receipts and expenditures (supply and demand). Circulation, however, cannot solve these problems. Therefore, it cannot be taken as the key to planning.

### Reform of the Circulation System and Its Theoretical Basis

The comrades held that to reform the circulation system, it is necessary first of all to answer the theoretical question of whether products of labor are commodities under socialist conditions. For example, if we fail to clear up the views that the means of production are not commodities or that they "are commodities when in excessive supply and products when in short supply," and if we in practice still stand for expanding "planned allocations" and supply by coupons, we cannot possibly succeed in reforming the circulation system. Some comrades put forward the opinion that under socialist conditions the change in the ownership system (right) of the means of production is only a

change in the ownership of the value of surplus products which constitutes the value of commodities. If we admit that in socialist society there still must be social division of labor and therefore there must be exchanges and that in exchanges the average necessary social labor must be computed to insure exchange of equal labor, and if we admit the continuing existence of the factors which determine the nature of products, such as the dual nature of labor and products, the law of value and so forth, then we must admit that products of labor are still commodities under socialist conditions.

Next, since we admit that products of labor are commodities under socialist conditions, we must do things according to the objective laws of commodity circulation, permitting all commodities (except a few planned commodities) to enjoy the right of free circulation, removing artificially imposed obstacles and abolishing the allocation system set up at each level according to the administrative system, so that a unified socialist market can be formed in which varied economic forms compete and many circulation channels coexist, crisscross and extend in all directions.

Third, to develop free circulation, it is imperative to separate government and enterprises so that enterprises, as economic cells, will enjoy full decision-making power in their operations, linking the material interests of enterprises and their workers and staff members with the results of their performance and developing lateral economic relations among enterprises.

Fourth, in connection with the above, it is necessary to reform the present price structure and the centralized price control system. It is necessary to pay attention to the role of the law of value, reduce step by step the scope of fixed prices, expand the limits of floating prices, negotiated prices and free prices. When conditions are ripe, it may be considered for the establishment of a price system with floating prices as its main body. Enterprises should have the necessary power to decide on prices. State price supervision should focus on control of price levels.

Quite a few comrades pointed out: Socialist economy is a planned commodity economy. This is a fundamental theoretical basis for reforming the circulation system. First of all, we must recognize the commodity economy as an inherent attribute of socialism, and not something alien and foreign. For this reason, we must organize socialist circulation in a planned way according to the objective laws of the commodity economy. Here we mean mainly that we must recognize and respect the socialist enterprises as relatively independent commodity dealers with independent economic interests and operating on the principle of "independent accounting and responsibility for their own profits and losses," that profit is the direct goal and driving force for enterprise operations, that the economic activities of enterprises should be regulated by such economic levers as price, tax, credit and interest, paying attention to applying the various economic levers in a comprehensive way, and that mandatory planning should be reduced to the extent possible, guidance planning should be expanded, and both should be based on the law of value.



## NATIONAL POLICY AND ISSUES

### COMPETENT, COURAGEOUS FACTORY DIRECTORS NEEDED

Beijing GUANGMING RIBAO in Chinese 8 Dec 84 p 1

[Commentary: "Train Large Numbers of Factory Directors Who Know Their Business and Have the Courage to Take Charge"]

[Text] This paper on 19 November carried a report in its frontpage on the hiring of a retired expert from the Federal Republic of Germany, Werner Gerich, by the Wuhan Diesel Engine Factory as its director. It is learned that since he took up the position, Gerich has, basing himself on the powers given to factory directors under the system of directors assuming full responsibility, adopted measures to deal with the improper practices in the factory and achieved initial successes. The production outlook is beginning to change. His measures are welcomed by the overwhelming majority of the workers and staff members with the exception of only a few incompetent cadres and sluggards.

The retired expert does not seem to have any extraordinary magic power. If we insist that he has, then it consists mainly of three things: First, he is strict with himself, sets an example with his own conduct and lives up to his word. For example, he set the rule that all workers and staff members of the factory must follow the state-prescribed 8-hour day and must not be late for work or leave early. After the rule was set, he himself practices it earnestly, always arriving at the factory before anyone else. Second, he knows the business and spends a major part of his time everyday in the workshops to discover and solve problems. He always wears work clothes while on duty, and with a small hammer and precision measuring tools in his pockets, he goes to the workshops to acquaint himself with the situation there and solve problems in good time. Third, he is strict and fair in meting out rewards and punishments and makes prompt decisions at the right moment without the slightest ambiguity and vagueness. Some workers fulfilled their production tasks remarkably well, and he rewarded them. Some cadres neglected their duties causing quality losses, and he had the courage to deal with them sternly.

The Party Central Committee's decision on reform of the economic structure clearly calls for efforts to train fairly soon large numbers of factory directors (managers) who can successfully organize and direct enterprise production and operations. In the past few years, with the progress in the structural

reform of the economy, many factory directors and managers, who know their business and have the courage to take charge, have appeared in all parts of the country. They have put the enterprises in good order and filled them with vigor and vitality. But there are still quite a few directors and managers who are not doing the same. Some have failed to do so not because they do not have the needed conditions but because they have not grasped the essentials. Some are unwilling or lack the courage to do so. Of course, there are also those who are unable to do so because they are really unfit physically or in ability.

The Party Central Committee's decision on reform of the economic structure is being implemented throughout the country. This is the golden opportunity to carry out reforms and strengthen enterprise management. If we all study in depth and earnestly implement the decision, we certainly can greatly raise the level of our enterprise management and train more and more factory directors and managers who are able to invigorate the enterprises and bring about a new situation.

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## NATIONAL POLICY AND ISSUES

### FINANCIAL MANAGEMENT OF INDUSTRY, COMMUNICATIONS

Beijing CAIZHENG [FINANCE] in Chinese No 10, 8 Oct 84 pp 8-10

[Article by Gong Zhian [1362 1807 1344]: "A Review of Financial Management of Industry and Communications in the Past 35 Years"]

[Text] The financial management of our industrial and communications enterprises is an important component in our socialist financial management. Since the founding of our country 35 years ago, in accordance with the development of the socialist economy, we have step by step established a more complete system of managing the industrial and communications finances. The system includes such measures as financial planning, the approval of the final accounting of capital and expenditures, business accounting, and the organization of controlling the income and the production cost. Since the 3d Plenum of the 11th Central Party Committee, and after the correction of disruptive chaos, we have reinforced our work in the management of the finances of the industrial and communications enterprises. We have therefore restored the practice of some of the past effective measures and also added appropriate new measures. As a result, we have taken the first step in the reform of the industrial and communications financial systems.

In 1978, we put into practice as a form of testing the system of enterprise funding among the state-managed industries. Beginning from 1979, we carried out, again as an experiment, the measure of leaving the profit and at the same time, we also put into practice the policies that some of the industries would be completely responsible for their profit and also the policy of basing the taxation on the profit yielded. From 1983 onwards, among the state-run industries, the first step of reform of the policy of basing the taxation on the profit has become widely practiced; and during the 4th quarter of this year its second reform step would begin to be carried out. As a result, we will succeed in changing the profit system completely into one of taxation and our financial management of the industries and communications would also thus enter into a new phase of development.

Within the last 35 years, our financial management of the industries and communications have achieved enormous accomplishments from the effect that has been produced under the guidance and policies of Marxism, Maoist ideology and the Party, with the united efforts of all the financial workers, in our support of the important building of our country and also along with the technological changes in the industries.

## To Try to Accumulate Capital, Support Socialistic Revolution and the Development of the Building Cause

Since the founding of the PRC, a tremendous amount of capital expenditure was required from our national finance in order for us to begin our socialistic building on the shambles that had been left by the old China. The main source of income of our national finance comes from the state-managed industries. Therefore the primary task of our financial management of our industries and communications is to basically promote the production development of our industries and communications; and as a result, we will increase the source of income and enable our country to accumulate greater amount of capital income, and then to continue to support and develop the socialist revolution and the cause of building.

Within the last 35 years, throughout financial management of our industries and communications, we have supported increased production, and thus enabled our country to accumulate more capital income. During the period from 1952 to 1983, the total amount of profit from the state-managed industries and communications account for 67.62 percent of the total national income with the annual rate of increase being 15.2 percent; and their total taxation also account for 27.5 percent with 18.9 percent being the annual increase. Such has been our support in the development of the socialist revolution and development.

Therefore in the whole development of the people's economy, both the financial guarantee of the resources and the important parts of our communications have become essential influences. During the First 5-Year Plan, the people's economy was based more on its comparative development with that of resources and transportation. Subsequently, under the disruptive influences of "Leftism," all the internal workings within the industries and communications themselves fell into serious problems, and any balance these industries might have with other industries were lost and transportation could no longer fulfill the needs generated by the development of the people's economy.

Since the 3d Plenum of our 11th Central Party Committee, in our financial management of industries and communications, we have seriously focused on the guideline of securing all the capital income that is necessary for the important building of our country. We have therefore effected important results in actively accumulating the capital that will enable our resources and our important communications to continue to develop. In addition to our investing in the basic building of the resources and transportation that have been defined by our country, we have also through our effective employment of our financial management of the industries and communications, been able to secure large amounts of capital that is necessary for the greater development in resources and transportation.

According to the statistics, during the 5 years from 1979 to 1983, the function of financial management secured 54.6 percent of the total budget that was spent on the development of resources and communications. Twenty-six and seven tenths percent of the total figure was spent on supporting coal production in maintaining its production or in transporting coal from other areas of production. As a result, the development in the production of coal and charcoal has been advanced with the continued opening of coal mines as well as the improvement and installation of safety measures and other equipment. Fifty and eight tenths percent of the figure during the 5 years has been spent on the raw material

of unrefined oil in stabilizing and raising its level of production as well as in the research and work of opening more oil fields. Three and nine tenths percent of the figure was spent on modifications in the system of electricity generation. As a result, the various equipment was modernized and the phenomena of not being [able] to transmit the electricity that had been generated or not being able to generate any electricity with the resources, had both been changed. Twelve and eight tenths percent of the total figure was used as expenditure on making technological improvement on the railways or installing new equipment. The total transportation capabilities have thus been increased. Five and eight tenths percent of the figure was spent on supporting the postal construction, and related causes of ports and civil aviation, with therefore the development in the communications and the postal system advanced.

During the last 35 years, under the joint effort of our party and all the people, we have already built a fairly complete and independent socialist industrial system. As a result, such industrial sectors as the steel, electric power, coal, chemical, mechanical engineering, and light industries have all been greatly strengthened; and development up to a certain extent has also been made in other sectors such as aviation, automobiles, tractors, electronics, oil, oil-refining, and nuclear power.

By the end of 1983, our country already possessed 393,000 industrial enterprises with 87,000 enterprises controlled entirely by the people. The total industrial output in the same year was 608.8 billion yuan which represents an increase of 56.3 times than that of 1949, with the annual increase of 11.1 percent. Taking again the 2 years, 1983 and 1949 in our comparison, let us look at the productions in detail. The production of unrefined coal of 715 million tons in 1983 is an increase of 21.3 times than that in 1949; the production in the generation of electricity of 351,400 units is an increase of 80.7 times; the 106.07 million tons in the production of unrefined oil is an increase of 883 times; in steel the production of 40,002,000 tons is an increase of 252 times. Let us now look at the 2 years in the sector of rail and road transportation: the total length of all the rail lines in 1983 was 516,000 km which is an increase of 1.4 times; the increase in the total rail freight is 20.2 times when the figure in 1983 was 1.188 billion tons; the total road freight in 1983 was 791 million tons with the increase of 9 times.

In addition, there have also been considerable development in the postal system and civil aviation. In 1983, in the state-managed industrial and communications enterprises, the fixed assets were 506.526 billion yuan and their liquid capital were 130.411 billion yuan, with both figures having increases respectively of 23.8 and 27.8 times than the figures of 1952. As a result, the material basis in our country's Four Socialist Modernizations has been greatly reinforced.

To Positively Support the Technological Modifications and Development in Our Industrial and Communications Enterprises

To both succeed in technological modifications and advance technology in general form an important path in our important goal of doubling our total industrial and agricultural production by the end of this century. It is also the key in

our work of reviving our industries, developing transportation, as well as raising the technological standards in our industries in general. In order to support the technological changes in our industries, and to encourage their use of new technologies, handicraft, material and equipment and to stimulate the positive development of industrial technologies and of technology in general, our ministry of finance have determined special policies and also allocated special funds, since the founding of our country and particularly since the 3d Plenum of the 11th Central Party Committee, with the goal of effecting positive results.

1) During the years from 1954 to 1983, through our budget, the total capital expenditure that was spent on potential changes as well as the testing of new products accumulated to 70 billion yuan. Over 30 billion yuan was spent alone during the 5 years from 1979 to 1983.

2) During the 23 years from 1952 to 1983, 200 billion yuan was spent on the industrial and communications enterprises according to the old and modified new budgets. Of this figure, 87 percent was spent on the old funding and new modifications; 13 percent on the old funding of the communications enterprises and modifications to the rails in the postal system.

Within the last few years, the old funding as well as the capital for the new modifications have increased considerably. From 1979 to 1983, the annual figure was 10 billion yuan with a large portion left for the use of the industries. Furthermore, in order to strengthen the management of fixed assets and to advance the state-run industrial and communications enterprises as well as the technological changes and the use of new equipment, our country is in the process of raising the old rates among certain industries, doing it section by section. As a result, our industries now have the use of more capital expenditure for their technological changes and new equipment.

3) From 1978, the measure of increasing the autonomy of industries was tested and as a result, such policies as industrial funding, the leaving of the profit with the contributing industries, the complete responsibility for profit and loss and basing the taxation on the profit have been carried out. During the 6 years from 1978 to 1983, a few hundred million yuan were kept by the industrial and communications enterprises from both their allocated funds and their interest made and the amount was to be spent on technological changes and new equipment.

4) Beginning in 1983, in order to support technological development, our State Council approved the following, that 550 units with heavy machinery as well as the electronic industries could take of their operating cost as their technological development cost for the specific use of testing new products and for technological improvement. Annually, this would come to 150 million yuan.

5) In order to support the development of new products, our country has determined that for the industries that do not take 1 percent of their operating costs as technological development expenses, they could include in the cost of their new products such expenses as scientific research, the material, labour

and expenses that were used in the testing of new products. Moreover, the cost of sample publications and machinery and all the expenses involved in the testing procedures should be counted no longer as modification expenses but as part of the costing price. In addition, there are also changes in the accounting of the capital remainder from the funds for the technological modifications, and as a result, sums below 100,000 yuan would be left for the own use of the industries, and for amount that exceed 100,000 yuan, 50 percent would be kept by the industries and the other half to be given to the central government.

In addition, during the last few years, the banks have released large amounts of capital for goods. According to the statistics, the amount that was repaid by the state-run industries to the banks with their profit and was in turn offered by the banks for their use reached over 16 billion yuan. This is also a form of support in the advance of our national financial work in dealing with technological changes and advances.

All the proof above shows that the use of different policies have supported technological reforms, charges and advances in differing degrees and they have also promoted the raising of standards of new industrial production and technological advances.

Since the founding of our country 35 years ago, we have gained considerable results in our financial management of industrial and communication enterprises. At the same time, we have also accumulated a great many experiences and lessons that will prove of great benefit in our future financial work.

Therefore in order to realize the goal of doubling our total industrial and agricultural production by the end of the century, we must proceed further in liberating certain ideals. We should approach from the basis of objective maturity and gradually change outdated practices that are not essential to production development, and instead we should adhere to the principle of producing, accumulating and using our wealth, in order to advance the burgeoning development of the new environment.

At the same time, we should deal seriously with the second step of reform in changing the taxation to the base of profit. We will then succeed in achieving a satisfactory relationship between the country and industries. We should then proceed to reinforce the system of building, perfect the financial management of the industries and communications, raise the quality of the personnel that are engaged in the financial management of industries and communications and thereby raise the level of financial management, strengthen the financial control, discipline the financial management work, and to effect results that are as great as possible in the financial management of industries and communications. As a result, we will be able to make new contributions in the cause of the Four Modernizations.

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PROVINCIAL AFFAIRS

NEW ACHIEVEMENTS IN ENERGY CONSERVATION IN TIANJIN REPORTED

Tianjin TIANJIN RIBAO in Chinese 3 Nov 84 p 1

[Article by Liang Enming [2733 1419 6900]: "This City's Work in Energy Conservation Has Achieved New Success"]

[Text] Tianjin has had sound development in its energy conservation work and achieved new successes during the months of January through September.

Tianjin has achieved tangible results in energy conservation work by getting a firm grasp on energy conservation management and technology reform. Based on the statistics of 15 major industry bureaus, during the months of January through September of this year the energy consumption needed for a value output of 10,000 yuan decreased by 4.55 percent compared to the same period last year. This resulted in a savings of over 180,000 tons of coal and accomplished 78 percent of this year's energy conservation target set for Tianjin by the state.

The leading group of the city's "energy conservation month" activities pointed out that although Tianjin's energy conservation work has achieved certain successes there is still potential for more, and should, on the basis of summing up experience, search for ways to reform Tianjin's energy conservation management. Each bureau should organize a yearly summary of enterprises that consume over 3,000 tons of coal and develop inspection and appraisal activities. They should point out the energy-conserving enterprises on the basis of the following five proposed standards for the city; good economic results, the allocation of resources being up to standard, efficiency of the main energy-consuming equipment being up to state standards, energy consumption for products being at the advanced level of industry, and having energy conservation measures be completed and attain results on time.

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PROVINCIAL AFFAIRS

JIANGSU ACHIEVES HIGH OVERALL ECONOMIC GROWTH

Beijing GUANGMING RIBAO in Chinese 20 Nov 84 p 1

[Report by Special Correspondent Liu Zhenman [0491 2182 3341] and Reporter Yang Kaimin [2799 7030 3046]: "Jiangsu Achieves High Overall Economic Growth"]

[Text] It is learned from the Jiangsu Provincial CPC Committee work conference on 18 November that Jiangsu's economy has grown in an all-round way by a rather large margin. Total industrial output value from January through October this year was 54.49 billion yuan, a 17 percent increase over the same period last year; grain output was estimated to be more than 64 billion jin, an increase of about 6 percent over last year; revenue totaled 6.73 billion yuan from January through October, up more than 10 percent from the same period last year; village and township industries continued to grow, and their annual output value may exceed 20 billion yuan, or 30 percent over the last year; and the number of counties whose total industrial and agricultural output value is over 2 billion yuan has increased from 3 last year to 5 this year, and the number of townships whose output value is over 100 yuan has increased from 7 last year to possibly 24 this year.

Since the beginning of this year, Jiangsu Province has followed instructions of central leading comrades, carried out reforms with courage and insight, strived to double and redouble output with one heart and one mind and won the first battle.

In rural areas, various forms of the responsibility system are being perfected; rational forms of production organizations are gradually taking shape; and commodity production is shifting from small but complete production units to associations of large specialized units and regional specialization.

In cities, the structural reform of the economy is being carried out steadily from units to entire areas, and 70 percent of the enterprises in the province have implemented various forms of the system of contracted economic responsibilities, which have increased the vitality of the enterprises and stimulated the enthusiasm of workers and staff members. The machine-building industry in Yangzhou, Zhenjiang, Yancheng, Xuzhou and Lianyungang cities fulfilled the whole year's production plans by the end of October. The output value of the province's electronics industry from January through September showed a 46.5 percent increase over the same period last year, and profit showed a 70.7 percent increase over the same period.

Knowledge and competence are respected in this province, and a number of outstanding intellectuals have been promoted to leading positions at various levels. Among members of leading bodies of 11 cities in the province, those with a college educational level have increased from 27 percent to 51.9 percent.

Among members of leading bodies of 64 counties, those with a college education have increased from 20 percent to 60 percent. They are playing an important role in reforms and economic work.

Technical transformation in Jiangsu Province is also picking up speed. Investment in technical transformation of industrial and mining enterprises this year has increased by more than 40 percent over the average level of the past several years. Imported technological items have increased by a rather large margin, and the foreign exchange spent for these purposes this year is equivalent to the total spent in the past 6 years.

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PROVINCIAL AFFAIRS

ZHEJIANG CONTINUES LARGE-SCALE INDUSTRIAL GROWTH

Beijing JINGJI RIBAO in Chinese 1 Dec 84 p 1

[Article: Gong Ze [7895 3419]]

[Text] From January through October this year, Zhejiang Province's industrial output value increased by 22.7 percent. State, collective and rural industries are all growing. How can the economy grow so fast? A provincial leading organ has summed up four experiences.

--It is necessary to invigorate the enterprises. The first breakthrough was made by rural collective enterprises. It is estimated that the output value of rural industries this year will be about 37 percent higher than the last year. The industrial output value of the whole province increased by 6 billion yuan in the first 10 months of this year, of which collective and rural industries accounted for 63 percent.

--It is necessary to readjust the structure of fixed asset investment, speed up technical transformation and bring into full play the role of the existing enterprises. According to bank statistics, on the average each yuan invested in these enterprises can bring a return of 3.67 yuan in increased output value and 0.77 yuan in increased tax and profit.

--It is necessary to actively develop economic and technical cooperation. At present, Zhejiang has established economic and technical cooperation ties with 27 provinces, municipalities and regions, and a four-in-one cooperative system covering materials, funds, technology and trained personnel is beginning to take shape. According to incomplete statistics, under this year's cooperation program, Zhejiang has received about 3 million tons of coal, 100,000 cubic meters of lumber and more than 100,000 tons of steel from other parts of the country and has lent scientific and technical personnel to other places to help them use new technology and develop new products.

--It is necessary to respect knowledge and competent people and employ a generation of new people. Zhejiang has boldly promoted a number of cadres who are professionally competent, capable of management and full of vigor and pioneering spirit. Among the 53 mayors and vice mayors (or commissioners) of the 10 cities (or prefectures) in the province, the average age is 48, and 77.4 percent have had a college education.

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## ECONOMIC DEVELOPMENT ZONES

### SHANGHAI'S STRATEGY FOR NEW TECHNOLOGICAL REVOLUTION

Shanghai SHIJIE JINGJI WENHUI [WORLD ECONOMY FORUM] in Chinese No 4,  
Oct-Dec 84 pp 32-38

[Article by Feng Zhijun [7458 0037 3182] Deputy Secretary General, Shanghai China Democratic League: "Research on Shanghai's Strategic Countermeasures for the New Technological Revolution"]

#### [Text] I. The Starting Point for Formulating Strategic Countermeasures

The object of research on "the new technological revolution and strategic countermeasures" is a large structurally complex system on an enormous scale that is formed of many factors. Where should we begin in dealing with this huge topic? We feel that the key is the overall structure, which includes the industrial, technical, economic, personnel and social structures. Only by concentrating on the overall structure with a focus on industrial structures will it be possible to have a strategic viewpoint, systematic methods and comprehensive analysis in research on more rational countermeasures. Why do we say that research on strategic countermeasures should have the overall structure as its core? There are four reasons:

First, the two concepts "structure" and "system" have different definitions but at the same time are interrelated. A system refers to a series of interrelated factors that form a comprehensive synthesis for achieving a particular goal, while structure refers to the compositional form of the arrangements of the units within the system and is a concentrated expression of the quality and quantity of a system. Only by relying on structure can the individual components become a system, and only with structure as the medium will it be possible for the attributes and functions of the components to become the attributes and functions of the system. If a system does not have a particular structural pattern, then it not only will be unable to utilize its capabilities but may even cease to exist. In contrast, if the structure is rational, excellent capabilities may be derived in the system even if the capabilities of the components are imperfect.

Second, we can look at the background of the term "the new industrial revolution" proposed abroad. After undergoing restoration and consolidation after World War II, the developed nations of the West went through a period

of rapid growth during the 1950's and 1960's based on flourishing developments in science and technology, forming a strategy of "rapid growth." A "three-in-one combination" of economic stagnation, serious inflation and high unemployment rates had burst out by the 1970's, however, with "stagflation" or "recession and growth." The strategy of rapid "growth" had failed, so the emphasis was switched to a strategy of "economic modernization" that used readjustments as the turning point in an effort to achieve economic growth. The Reagan administration in the United States advocates "re-industrialization," Mrs. Thatcher in England calls for "industrial reorganization," the Socialist Party in France has called for "industrial restoration," and the government of Japan has implemented the Showa industrial reformation" to begin a strategic process of a "third long voyage." The key point of these slogans and phrases is an emphasis on readjustment in industrial structures.

Third, we can look at China's national conditions. Descriptions of industrial structures may differ as a result of the different methods used for classifying industries during analysis of industrial structures at home and abroad. Generally speaking, there are four methods used within China and abroad for categorizing industries: the dual sector classification method, the agriculture--light industry--heavy industry classification method, the "tertiary industry" classification method, and the production factor density classification method. Our analysis will stress the production factor density classification method.

China's current industrial structure includes all three types of industries: labor-intensive, capital-intensive, and knowledge and technology-intensive, but we are extremely backward in terms of proportions. Knowledge and technology-intensive industries account for a small proportion of the overall industrial structure even in industrially-developed Shanghai. We have done some preliminary calculations of the proportions in each of the three types of industries (labor-intensive, capital-intensive, and knowledge and technology-intensive) in the existing industrial structure of Shanghai from the perspective of the proportion of the gross value of industrial output in the municipality. The results of our preliminary calculations show that labor-intensive industries account for 45 percent of the gross value of industrial output in Shanghai, while capital-intensive industries account for 44 percent and technology and knowledge-intensive industries made up 11 percent. It can be seen that these proportions are relatively backward. We should, therefore, borrow from the industrial structures of the developed nations to establish and improve a system of coexistence for the three forms of intensity in industries in China according to advanced proportions.

Fourth, we can look from the perspective of the current situation in Shanghai. Shanghai is the largest economic center in China. It ranks first nationwide in terms of gross value of industrial output, financial income, commodity exports and cargo handling. It also has a solid industrial foundation, well-developed science and culture, easy communications and information, excellent enterprise quality and other advantages. The city still has many problems, however. Analysis shows that the crux of the problem is the long period of irrationality in industrial structures. An economic takeoff in Shanghai is possible only through readjustment of industrial structures.

## II. Analysis of the Current Economic Situation and Interrelationships in the Shanghai's Industrial Structure

During the tide of this new technological revolution, Shanghai should jump at opportunities, welcome challenges and become an important base area and development vanguard for the four modernizations and construction in China. Moreover, analysis of the new technological revolution from the perspectives of developmental trends and needs shows that the current economic development situation for Shanghai's economy has many problems that deserve thorough study. The creation and existence of these problems are closely related to irrational industrial structures.

The first is outdated equipment, ancient technologies, slow technical progress and a lack of competitive abilities for products.

The results of emphasizing the tapping of potentials and neglecting transformation, of emphasizing speed and neglecting results, and of stressing accumulation while neglecting compensation over a long period have become increasingly serious. Old equipment from the 1930's accounts for about half of all the industrial equipment in the municipality, while equipment at a 1950's level makes up about one-third. Only 11 percent or so is equipment at a 1960's or 1970's level. It is easy to imagine that outdated equipment is incapable of making high-quality, low-cost products. Plant equipment and property utilization has reached the level of oversaturation, so there is no choice but to "nibble" at auxiliary buildings and living facilities.

Looking at the factors in technical progress over the years, there basically has been a tendency towards decline. What especially deserves attention is the sustained decline in rates of technological progress in recent years. This shows that a tendency toward declining returns to scale has appeared in Shanghai's industries. Slow technical progress has not given Shanghai's products the ability to compete in foreign markets, and they are subject to a great deal of pressure in the domestic market. Although Shanghai may continue to be the overall team captain within China, it is losing this position in many single lines on a daily basis. An analysis of the reasons for the slow rate of technical progress shows that industrial development in Shanghai has relied primarily on inputs of human and material resources in order to complete value of output, output quantity and financial turnover tasks for a long period of time. There has, however, been a lack of effective measures and the requisite capital for using new technologies to transform traditional labor intensive and capital intensive industries and for promoting a transition to a rational industrial structure.

Second, there is the problem of the direction of investments and insufficient capital. In the area of the direction of investments, investments account for an insufficient proportion of total investments in productive construction in the municipality, being far lower than the proportion of investments used for increasing output. The main reasons for this situation are: 1) Excessive pressure on enterprises to increase output and provide fast results in expanding production capacity on the basis of old levels; and 2) The requirement that bank loans be recovered from new profit increases in

combination with the fact that some conservation measures and product quality improvement measures do not provide substantial new profits left enterprises with no one to turn to for a loan, so it was hard to avoid confusion. Moreover, the desire to increase output and the value of output caused investments to be overly centralized in traditional industries, particularly the heavy and chemical industries. Investments in capital construction in the metallurgical, chemical, textile, machinery and energy industries has accounted for more than 90 percent of total industrial investments in recent years, while miniscule amounts have been invested in emerging industries. This sort of investment orientation undoubtedly is not favorable to a transformation to rational structures.

We can look at the amount of capital needed. Using the actual scale of investments in fixed assets in Shanghai as the standard and correcting according to the average input/output ratio over the 10-year period between 1971 and 1980, if Shanghai wishes to achieve a quadrupling [of the value of industrial output] in 20 years on the basis of the original industrial structure, then the amount of investments needed for investments in fixed assets and for the complementary social developments far exceed the amount the nation is able to provide. This, apart from collecting capital from all sources, means that readjustments in industrial structures are obviously of extreme importance.

Third, there is the energy and energy resource shortage. If we wish to achieve a quadrupling of the gross value of industrial output based on existing industrial structures, the amount of total energy resources required would far exceed energy resource supply possibilities. Moreover, energy resource supplies are growing at a slower rate than economic growth. This means that insufficient energy resource supplies will become an important factor in restricting economic development in Shanghai.

Energy conservation occupies an important position in the various routes to dealing with insufficient energy resource supplies. The current path to energy conservation in Shanghai has a ratio of 1:1:2 for structural energy conservation, technical energy conservation, and management energy conservation. It can be seen that, whether from the perspective of an analysis of the tendency toward increased energy resource supplies or from the perspective of the structure and paths of energy conservation, the key is readjustment of industrial structures. There should be readjustment of industrial structures to transform the current situation of high energy consumption, high proportions, backward energy utilization patterns, insufficiently intensive crude oil processing, low rates of energy resource utilization and ever-growing difficulties in energy conservation to resolve structural problems related to inadequate energy resource supplies.

The resource problem is the same. Resource shortages have influenced the rate of development and economic results in Shanghai. A analysis of the industrial structure for industrial products accounting for one-half the gross value of industrial output in Shanghai shows that most of them are "resource-intensive" products. Moreover, crude statistics on the resource supply situation show that supplies of primary material resources like coal,

fuel oil, steel, copper, lumber, cotton, wool and so on all have declined to different degrees. We predict that this difference between supply and demand for primary resources will continue to exist in the future, and that there will be a tendency toward even greater shortages in some raw materials.

Energy resources are closely related to industrial structures. An analysis of readjustments in industrial structures in other countries shows that most are related to energy and material resource shortages. Reforms in industrial structures in Japan began with energy resource problems. Japan had already achieved an industrial structure of heavy and chemical industrialization by the mid-1960's. This heavy industrial structure continued to expand and develop into the late 1960's and early 1970's. This industrial structure consumed large amounts of energy and material resources and was dependent on the industrial structure of world energy resource markets. Japan, however, is an energy and material resource-short nation. Statistics in the "White Paper on Japan's Resources" showed that Japan's dependency rates on imports from foreign countries for 10 primary resources (petroleum, iron ore, raw coal, natural gas, copper, aluminum, zinc, nickel and lumber) amounted to 71 percent in 1960, 81.4 percent in 1965, and 90 percent in 1970. Japan is the world's largest energy resource importer, accounting for more than one-fifth of total world energy imports. Japan's degree of dependency on imports of crude oil from foreign countries reached 99.7 percent in 1972, while more than 75 percent of the power generated in Japan depended on petroleum (this figure was 45 percent in England, 50 percent in the United States, 52 percent in the Federal Republic of Germany, and 67 percent in Italy). This created a high cost rate for the products. According to statistics from Japan, each \$1,000 in gross value of output consumed \$40.60 in primary energy resources in the United States, \$37.50 in France, \$60.10 in West Germany, \$58.50 in England, and \$75.90 in Japan. The two energy crises between 1973 and 1979 caused a 14-fold increase in international petroleum prices. This was an enormous pounding on Japan, which depends so much on energy resource imports. The Japanese called this a heavy "external pressure" that made a "narrow escape" urgent. They could only take into consideration the question of how to reform industrial structures, adopt and develop all types of new technologies in order to carry out a policy of "transformation of industrial structures," make great efforts to develop knowledge and technology-intensive industries, to transform traditional energy structures that consume large amounts of energy and materials, and to "raise the level of industrial structures."

Analysis of the current situation and trends in energy and material resources in Shanghai and comparative research on foreign countries causes us to feel that energy and material resource shortages are definitely unfavorable factors, but also that such shortages are turning points that make readjustments in industrial structures urgent. This unfavorable factor can become one of the motive forces for promoting scientific and technological development, greatly developing knowledge and technology-intensive industries, using new technologies to transform traditional industries, and causing economic development in Shanghai to take off from a foundation of a rational industrial structure.



Fourth, the city is expanding, communications are difficult, there is a dense population and environmental pollution is serious. There is a shortage of available land in the city of Shanghai, averaging  $2.46 \text{ m}^2/\text{person}$ . The city center, which covers an area of  $141.7 \text{ km}^2$  and contains a permanent resident population of 6.079 million persons has a population density of  $43,000 \text{ persons/km}^2$ . Twenty of the 121 streets in the city have a resident population density of more than  $100,000 \text{ persons/km}^2$ , and five of the streets have population densities in excess of  $150,000 \text{ persons/km}^2$ . Shanghai has the highest urban population density of the five major cities of the world with populations over 10 million (Shanghai, Tokyo, London, Mexico City and New York). This situation has caused a series of problems in economic development, housing, the environment, communications and other areas. Shanghai has an average of 2.2 m of urban streets and highways per person, compared to  $28 \text{ m}^2/\text{person}$  in New York and  $26.3 \text{ m}^2/\text{person}$  in London. The figure in Shanghai is only 5.6 percent and 6 percent of the figures in New York and London, respectively. The average driving speed of public transportation vehicles has dropped to about 10 km/hour. The average amount of time an employee spends going to and returning home from work is 42.8 minutes, one-third more than in the large cities of the United States, France and the Soviet Union. If we calculate the amount of [excess time spent] per person at 10 minutes [per day], then with more than 4 million employees, Shanghai is losing [the equivalent of] 100,000 labor days every day, which would be equal to nearly 10 million yuan in value of output, giving a yearly total of nearly 3 billion yuan in value of output [that is being lost]. Despite this, even more important are the serious effects on fostering the functions of city as a whole and improving work efficiency.

There is serious environmental pollution. Shanghai is now discharging about 5 million tons of waste water each day, made up of 3.9 million tons of industrial waste water and 1.1 million tons of household waste water. Only 16 percent of the waste water is actually treated, however. Besides the 800,000 tons/day discharged into the Chang Jiang and the East China Sea, the remaining amount is discharged into the Huangpu Jiang and its tributaries, which has caused the Huangpu Jiang to become increasingly polluted. The water in the Huangpu Jiang is severely polluted [lit.: "black and smelly"] for about 150 days out of every year.

According to our preliminary surveys and future predictions for the basic conditions of environmental pollution in Shanghai Municipality, if Shanghai's industry continues to develop according to the original industrial structures and if it is unable to keep pace in eliminating pollution, then there will be a 1.5 to 1.7-fold increase in the potential occurrence of all types of pollutants from 1982 to 1990, and a 2.0 to 2.3-fold increase from 1982 to 2000. The amount of waste water in Shanghai will increase to 8.5 million tons a day. Without effective measures, the Huangpu Jiang will reverberate [as published] with year-round light contamination prior to 1990 [error in text gave 1900], and it is possible that the section of the Huangpu Jiang in central Shanghai will be severely polluted year-round by the year 2000.

An analysis of the background and conditions of the new technological revolution in foreign countries combined with comparative research on Shanghai's advantages shows that Shanghai has certain advantages in the area of developing knowledge, information, socialization and more scientific management and administration, and there is a full possibility of and feasibility for achieving rationality in industrial structures.

First, there is a high level of intellectual development. Shanghai has very substantial scientific and technical forces and a developed educational system. The 610 scientific research organizations, 51 institutions of higher education and 380,000 scientific and technical personnel in the city form a "Great Fifth Route Army" [reference to Eighth Route Army during revolutionary era]. They have developed many applied results and have a relatively strong ability to import and digest technologies. About 6,000 different scientific research achievements have been obtained in the 35 years since Liberation, and the city produced 136 of the 600-plus major national scientific research achievements over the past 28 years as selected by the National Science Conference in 1978, equal to 23 percent. This is especially true in the realm of forerunner science and technology during the new technological revolution (microcomputers, new types of materials, biological engineering, optical communications, lasers, etc.), where it has certain scientific and technical forces and certain advantageous development and application capabilities and levels.

Second, there is high level of information. Shanghai now has trade relations with more than 160 regions and countries and more than 300 ports, and trades with more than 18,000 businesses. It has established "sister-city" relationships with cities in 10 countries, and has economic relationships with all of the 28 other provinces and municipalities in China. For this reason, commerce and circulation are lively, there is busy foreign trade and the maximum circulation of information. One-tenth of the nation's information now comes from Shanghai, and the amount of written information received per capita is 10 times the national average. The latest technical information from abroad reaches Shanghai fairly quickly, providing a beneficial resource for national scientific and technical development.

Third, the level of socialization is fairly high. Shanghai was the birthplace of China's modern industry. It now has more than 149 industrial lines (the country has a total of 166), more than 8,000 factories, and an industrial army [workforce] of 2.02 million that form an industrial system with a strong ability for social coordination and complementing.

Fourth, levels of management and administration are fairly high. Shanghai has a workforce that has long-term managerial and administrative experience and technical skills. According to statistics comparing Shanghai and national averages, Shanghai has 5.96 times as much national income per capita, social labor productivity is 4.06 times as much as the national average, 2.21 times as much national income is produced per ton of energy resources and 2.62 times as much actual value of output per 100 yuan of original value of fixed assets is produced in industrial enterprises. The capital turnover rate is 43 days shorter than the national average. Labor productivity in industrial

enterprises under ownership by the whole people is 2.5 times the national average. Economic efficiency is the highest in the country. In addition to all this, Shanghai also has superior geographical conditions, is located near rivers and the ocean, has convenient communications, and has the conditions for becoming a port for welcoming the challenge of the new technological revolution.

### III. Some Preliminary Ideas for Strategic Countermeasures in Shanghai

Shanghai should adopt an economic development strategy of "new ideas and transformation" to achieve the four modernizations and welcome the challenge. "New ideas" refers to development of new knowledge and technology-intensive industries and involves arming traditional industries with new science and technology, bringing about "transformation" through "new ideas," and deriving "new ideas" from "transformation." Import, digest and absorb new technologies suited to the key points of Shanghai's development to transform traditional labor and capital-intensive industries during the 1980's and gradually create the conditions for "new Ideas" in the 1990's to develop emerging knowledge and technology-intensive industries and establish a new industrial sphere in Shanghai. To achieve this, there must be three major turnarounds in the direction of development: 1) A movement from "producer" to "scientific and technical forerunner," which involves a transition from concentrating merely on production to relying on science and technology to promote production; 2) A transition from "exploiting potential" to "innovation," which involves moving from the current use of production measures for exploiting potential to apply new technologies for transforming industrial structures; 3) A transition from "extensification" to "intensification," which means moving from labor and capital-intensive industries to knowledge and technology-intensive industries.

In order to thoroughly study economic development strategies in Shanghai, we carried out some preliminary explorations related to questions in the three areas of science and technology strategies and key points of development, establishing and developing emerging industries, and technical transformation in traditional industries.

#### 1. Science and technology strategies and key points of development.

A vigorous economy certainly must rely on scientific and technical progress, and scientific and technical work should be oriented toward the economy. We have some preliminary ideas concerning this for science and technology strategies in Shanghai:

The first stage, from now to the 1990's is one of laying a foundation. We should concentrate on importing mature advanced technologies from abroad, using them to elevate our take-off point after digesting them, and carrying out transformation of traditional industries. We first of all should consider the factors of small investments, rapid recovery of benefits and high rates of foreign exchange creation, accumulate capital for emerging industries, and establish new industries closely related to new technologies.

The second stage, from 1990 to the end of the century, will use science and technology to promote an economic take-off. The establishment of a new group of industries and continual use of new technologies to transform traditional industries will cause great changes in the industrial structure in Shanghai and make Shanghai's products capable of being high level, precise, more intellectual and varied.

For this reason, we should adopt such methods as a system of indicators for evaluating overall economic results and doing analysis from the perspective of the relationships among new technologies and between new technologies and traditional industries according to Shanghai's actual conditions to come up with the best program for developing emerging technologies in Shanghai.

Nine indices were used in analysis of overall results: Shanghai's conformity with the demand placed on it by the state; the degree of technical maturity in an international context; the degree of technical maturity in the context of the Shanghai region; the speed of industry formation; size of investments and construction schedules; direct economic results; indirect economic results; and the role in transforming Shanghai's traditional industries. In evaluation of results, the seven new technologies with the highest overall results are: microcomputer technologies, new types of materials, optical fiber communications, lasers, biotechnologies, marine engineering and robotics. Our results are identical to the judgements of specialists in all areas based on their experiences, and are suited to the demands the state has placed on Shanghai.

From the perspective of the degree of relationships between emerging technologies and traditional industries, the seven technologies above are closely related to transformation of traditional industries. This is especially true of microcomputers and new materials, which seem to be related to development in all lines of activity. There also is a broad range of applications for laser processing, and biotechnologies play a major role in agriculture, medicine and pharmaceuticals. For this reason, development and application in these seven major realms will provide new technologies, new materials and new techniques for transforming Shanghai's machinery, metallurgical, textile, chemical and other traditional industries, and will give an added boost to the takeoff in Shanghai's traditional industries. Looking from the perspective of the degree of interrelationship between new technologies, the figures for microcomputers and new materials are as high as 100 percent and 81 percent, respectively, and the degree of interrelationship for laser technologies is as high as 78 percent.

Shanghai has advantages in four areas in relation to developing the seven industries with microcomputers at the top of the list:

- 1) The level of scientific research and development in Shanghai is only 8 to 10 years behind the advanced nations of the world. Although there is a substantial differential in the area of microcomputers, there is a certain foundation in such areas as biotechnologies, optical fiber communications and new materials.

2) The size and quality of the scientific research contingent engaged in research and development in Shanghai is the best in China. Generally speaking, the scientific research personnel in Shanghai account for one-third to one-sixth of China's researchers in the seven industries listed above, and leaders in many disciplines are in Shanghai.

3) In general, Shanghai has gone through 8 or more years of research and development in the seven industries, and some of them have two to four commodity production and deployment plants.

4) The state will build the related development organs in Shanghai.

The point of breakthrough chosen in the strategic countermeasures is development and application of microcomputers. The reason is that microcomputers have a broad range of applications, cover a wide area, go into operation quickly and provide rapid results. Moreover, Shanghai now has more than 2,000 scientific and technical personnel engaged in manufacturing, developing, and extending the application of microcomputers, so there is a certain scientific research and production foundation and conditions, which has formed a preliminary system that combines development, production and extended application. For this reason, using development and application of microcomputers as the point of breakthrough will greatly promote technical transformation in Shanghai's traditional industries, achieve automated control of production processes and modernization of management and administration. In this way, microcomputer technologies will become an effective tool for changing the industrial structure in Shanghai, developing emerging technologies and transformation traditional industries.

## 2. Establish and develop emerging industries

If we wish to change the backward proportion of labor-intensive, capital-intensive and technology-intensive industries, Shanghai should develop a group of knowledge and technology-intensive industries and use new technologies to transform a broad range of traditional industries.

1) Establish a microcomputer industry and software industry under the driving force of microcomputer development and application. The microcomputer industry in the 1980's should mainly involve importation of technologies and production lines. A microcomputer industry system can be formed during the 1990's to coordinate research and development of materials, circuits, specialized equipment and complete machines, production and personnel training. The focus of the software industry during the 1980's is research and development of applied software and digestion and transplantation of system software. During the 1990's, we should develop software engineering to expand the role of engineering in software development, to promote socialization of software services, to standardize software products, and to turn them into commodities.

2) Development of the microcomputer industry should be supported by coordinated action in optical communications, lasers and other emerging industries to permit breakthroughs and comprehensive achievements. Shanghai

should make corresponding developments in the fiber optics and laser industries. In optical communications, we should achieve utilization of multi-model systems of short wavelength and long wavelength optical fibers in specialized grids in railway, television, communications, public safety and other systems during the 1980's, and achieve widespread use of single-model fiber optic systems in the 1990's to establish a fiber optic communications network. In the area of applied laser technologies, the focus should be development of laser processing, laser inspection and laser medicine. In the area of components, the developmental focus should be placed on utilization of common devices, lowering costs, improving quality, and gradually achieving standardization and systemization. In the area of development and exploration, the developmental focus should be placed on laser information storage, including research on laser disk technologies, laser printing and even using lasers in biological engineering.

3) As the microcomputer, software, optical communications, lasers and other emerging industries are established, Shanghai will form a group of navigation [as published] industries guided by information technologies. At the same time, we should strengthen research in materials development and biological engineering and strive to begin producing some of the new materials and achieving major breakthroughs in some areas in biological engineering.

4) To establish these knowledge and technology-intensive industries at the earliest date, Shanghai should substantially develop the "technical advisory services" industry so that the industrial structure in Shanghai develops from the old pattern of simply supplying hardware to a compound pattern of providing hardware and products, software and technologies, and intellectual services.

### 3. Transform traditional industries

Along with striving to develop new technologies and emerging industries, Shanghai also must pay a great deal of attention to technical transformation in traditional industries. Only in this way will it be possible to achieve a rational readjustment of industrial structures, make rapid changes in Shanghai's product structures, expand markets and accumulate capital to give Shanghai even more dynamic strength in "squeezing the outside" and advantages in "linking up inside."

Technical transformation of traditional industries has an extremely important strategic status during the process of promoting rationalization of industrial structures, and we should soberly understand this and give it a high degree of attention. Foreign countries have paid a great deal of attention to the question of using new technologies to transform traditional industries in discussing and formulating countermeasures for the new technological revolution. The Japanese scholar Muyesheng [phonetic 3668 6851 0581] recently issued a warning to the Japanese government. He feels that the government and industry should not become totally involved in electronic component and integrated circuit production. He predicts that the scale of new markets for Japan over the next 20 years will amount to 260 trillion yen, while the electronics industry will account for only 10 percent of the value

of output. If we add the value of output in other very sophisticated industries using new technologies, the maximum amount would not exceed 30 percent. The remaining 70 percent must be provided by the traditional manufacturing industries. For this reason, the leading position of manufacturing in the national economy is unshakeable. Senguzhenggui [phonetic 2773 6253 2973 6016], Director of Research at the Yecun [phonetic 6851 2625] Comprehensive Research Institute pointed out that current microcomputers are like nuts and bolts in traditional industries in that they can only create new results when they are combined well with mechanical equipment. He feels that the future route for economic development is to "integrate machines and computers." The Japanese economist Zhuneihong [phonetic 4554 0355 1347] feels that scientific and technological innovation will be possible in the 1980's, but that it is not a medium or long-term prospect for the 1990's. What really is needed at present is technological innovation related to the production process.

Industrial structures also are undergoing major readjustments in the United States. Some feel that traditional industries in America will become backward and lead to an industrial depression. However, Harvard professor Laike [phonetic 6351 0344] feels that America does not have to choose between industries with large smokestacks and high technology industries, and that it is not choosing "waning industries" or "rising industries." He feels that it is a mistaken conception that the United States is now making such a choice. The large-smokestack [traditional heavy] industries in the United States will not disappear, and the real challenge the U.S. is facing is how to apply high technology in large-smokestack industries, or how to use technologies in "rising industries" to transform "waning industries." According to reports, the United States is now raising capital for equipment replacement and technical transformation in the manufacturing industry. The U.S. Department of Commerce has estimated that investments in the manufacturing industry will increase by 15.7 percent in 1984, the highest investment rate in the United States in the last 17 years. The special characteristic of these investments is that most of the capital is being used for technical transformation in traditional industries, with a focus on lines of production for equipment utilizing microcomputer, robot and other advanced technologies. The automotive industry in the United States has invested a total of \$53 billion in technical transformation. The textile industry is planning to invest \$1.3 billion. This large-scale technical transformation of the manufacturing industry in the United States has become known as an "electronic heart transplant" for traditional industries. All of this shows that research on countermeasures for the new technological revolution should include not only development of new technologies and establishment of emerging industries, but also should pay a great deal of attention to technical transformation of traditional industries.

Transformation of Shanghai's traditional industries should begin with weak links, use new technologies to transform the electromechanical and instrument industries, concentrate on transformation of machinery and electronic components and basic techniques, and focus on developing precision machinery, light industrial machinery, digital instruments and large unitized equipment so that Shanghai's industrial structures are shifted from primarily supplying

the country with household consumer goods onto a path of providing the country with advanced technology and equipment. Shanghai should employ new technologies to transform the chemical and metallurgical industries and put them on the path of intensive dual processing of resources, and develop midstream and downstream products [as published] in the petroleum and metallurgical industries.

Research on "long-term development of technologies for transforming the overall industrial model in Shanghai" begins first of all with the need for rationality in industrial structures and the current industrial situation in Shanghai for determining the key industries for development in Shanghai. Next, we derive the relevant industries based on the industrial relationships that are embodied in an input-output table. Then, we present investment programs for developing key industries and for technical transformation in the industries that are related to them in varying degrees. Last, there is a comprehensive evaluation of the overall system using the rate of development in industrial production, economic results, technical levels and degree of social compatibility. After comparing the advantages of each, provide different programs for the leadership to use when formulating policy. We have now completed the first two steps and are now doing intensive research on investment programs and overall evaluation.

In summary, the development and application of new technologies for continually developing emerging industries and for technical transformation in traditional industries could make gradual improvements in Shanghai's industrial structures and move them toward rationality. After Shanghai readjusts its industrial structures, our preliminary estimate is that the ratio of labor-intensive, capital-intensive and technology-intensive industries will change from 4:4:1 to 3:4:3. Economic results will increase substantially as a result of the development and application of new technologies for establishing emerging industries and transforming traditional industries. At the same time, the city's environment will improve, social structures will tend to be rational and Shanghai will change gradually from being a "production" city to a "management" city where operational economic activities predominate. In the 21st century, Shanghai will move gradually from being an economic center where the production of things predominates to an economic center with information collection and distribution and processing. It will become the starting point and base for China to meet challenges and face the world.

The implementation of strategic countermeasures in Shanghai must have the corresponding policy measure guarantees. Open up investment channels, centralize capital for developing new technologies, established emerging industries and transform traditional industries. Adopt a policy of "importing, putting into use, substituting and pressing forward" for technology imports. Formulate personnel plans, promote personnel circulation, establish training centers, develop international exchange and bring in scientific and technical personnel from abroad to use here. Formulate new economic examination indices, reform finance, tax collection, product information, pricing and other policies to attain the goal of encouraging and assisting the development of new technologies and emerging industries.



ECONOMIC DEVELOPMENT ZONES

BRIEFS

JOINT VENTURE TALKS ACCELERATED--Since opening its door to the outside world, Nantong City has been visited by representatives of 77 companies and financial institutions from more than 10 countries, including Japan, the United States, Canada, the FRG, France, and Britain, in addition to Hong Kong and Macao, who have come for talks on joint-venture and cooperation projects. As of May, Nantong City had generally accelerated the tempo of its talks with foreign firms on joint-venture and cooperation projects, thereby establishing 3 Sino-foreign joint-venture enterprises, with transactions for over 10 projects to be concluded soon. In the words of Yokota Yakaaki, chief of the Japan-China Economic Association's investigation and research section: "Nantong occupies a very favorable position, which is extremely advantageous to cooperation in running small to medium enterprises." He added that after returning to Japan he would inform people in all quarters of the advantage of coming to Nantong for investments. [Text] [Quangzhou YANGCHENG WANBAO in Chinese 17 Aug 84 p 2] 12315

CSO: 4006/31

## ECONOMIC PLANNING

### MANDATORY PLANNING BASED ON COMMODITY ECONOMY

HK060621 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 1, 20 Jan 85  
pp 40-47

[Article by Han Zhiguo [7281 1807 0948] of the Policy Research Office under the State Planning Commission: "Establish Mandatory Planning on the Basis of the Commodity Economy"--written in November 1984]

[Text] The socialist economy is a planned commodity economy based on public ownership rather than a product economy. This is affirmed in the "Decision of the CPC Central Committee on Reform of the Economic Structure" adopted by the 3d Plenum Session of the 12th CPC Central Committee. Under the circumstances, is it necessary for us to modify the traditional concept of mandatory planning on the basis of the product economy? If no modification is made and only the scope of mandatory planning is reduced, will we be able to meet the needs of the new situation in the development of the socialist commodity economy? Will we be able to effectively carry out planned economic management? I do not think we can. At present, we must reevaluate the nature of the theory of mandatory planning in light of the objective requirements of the commodity economy and carry out fundamental reform in actual planning work. In other words, we must establish mandatory planning on the basis of the commodity economy.

I. Mandatory Planning Should Be Regarded as Binding [yueshu xing 4766 2631 1840]  
But Not Compulsory [qiangzhi xing 1730 0455 1840]

The concept of mandatory planning was first put forward by Stalin. In December 1927, Stalin addressed the 15th Congress of the CPSU (Bolshevik). In his speech, he drew a comparison between the socialist planned economy and the capitalist planned economy. He said: "Our plans are not forecast plans, not guess-work plans, but mandatory plans which are binding upon our leading bodies and which determine the trend of our future economic development on a countrywide scale." (Stalin: "The 15th Congress of the CPSU (Bolshevik)," "Complete Works of Stalin," Vol 10, p 28) The concept of mandatory planning put forward by Stalin produced an important effect on the theory and practice of the socialist economy. Because of the negation of the socialist economy as a commodity economy, the economic structure of virtually all socialist countries was in the past based on a highly-centralized product economy characterized by administrative orders. In keeping with this structure, people

even simply took mandatory planning to be compulsory planning. This was precisely where problems arose. Because the socialist economy is after all a commodity economy, we can hardly avoid producing a series of insurmountable maladies if we rely on compulsory mandatory planning to organize socio-economic activities.

To begin with, taking mandatory planning simply as compulsory planning is theoretically unjustifiable in two ways. First, this proposition goes against the nature of the socialist economy. Under socialist conditions, commodity-money relations are present everywhere. Thus there are invariably different economic interests at different levels, namely, the interests of the state, the interests of the collectives, and the interests of the individuals. In other words, the interests of the state, the collective, and the individual still clash although their fundamental interests coincide. However, according to the traditional concept, mandatory planning was regarded as the principal form of socialist planned management on the one hand and taken simply to be compulsory planning on the other. This naturally produced the conclusion that the socialist economy is a kind of compulsory economy, or an economy which is chiefly based on compulsion. This obviously goes against the nature of the socialist economy. As far as its direct meaning is concerned, mandatory planning only represents the interests of the state. It does not represent the interests of the enterprises, nor the interests of the individuals for that matter. Thus, if compulsory mandatory planning plays the leading role, economic interests at other levels will inevitably be negated or suppressed in practice. Conversely, if mandatory planning can represent the interests of the enterprises and the individuals, the enterprises and the individuals will have the initiative to implement the mandatory plans and there will be no need to exercise compulsion. Second, this proposition goes against the basic principles of the commodity economy. Equality and mutual benefit, as well as compensation at equal value, are important principles of the commodity economy. Essentially, the commodity economy is incompatible with various kinds of supra-economic compulsion. If we recognize the socialist economy as a commodity economy and recognize the enterprises as independent commodity producers that are responsible for their own profits and losses on the one hand, and impose compulsive plans on the enterprises and make arbitrary arrangements for their production and circulation on the other, we will never be able to implement the commodity economy, principles of equality and mutual benefit, and of compensation at equal value. The decisionmaking power of the enterprises in production and operation will not be guaranteed and the assumption of responsibility for one's own profits and losses will become empty talk.

Seen from practice, taking mandatory planning simply to be compulsory planning also has two obvious drawbacks:

First, the scientific nature of planning cannot be effectively guaranteed. The scientific nature of planning is of crucial importance in socialist planned management. A scientific economic plan can promote the development of the economy, whereas an unscientific or erroneous economic plan can hamper or even undermine economic development. It is wrong to think that as long as there is planning, a balanced growth can be attained. If planning is not scientific, the harm done by its resultant planned blindness to economic development will be much greater than that done by spontaneous blindness. Thus, in order to

effectively exercise planned management over its national economy, a socialist country must make a special effort to raise the level of its scientific economic planning. To attain this goal, there must be a sensitive information system, an advanced method of planning, and a scientific process of decision-making. Plans must be tested in practice and there must be a reasonable process for making corrections. On this point, Stalin once said: "The drafting of a plan is only the beginning of planning. Real guidance in planning develops only after the plan has been drafted, after it has been tested in the localities, in the course of carrying it out, correcting it and making it more precise." (Stalin: "Political Report of the Central Committee to the 16th Congress of the CPSU (Bolshevik)," "Complete Works of Stalin," Vol 12, p 301) The scientific nature of planning cannot be effectively guaranteed if mandatory planning is taken simply to be compulsory planning. The fact that the compulsory nature of mandatory planning is emphasized means that all plans, whatever their nature--be they scientific, unscientific, or even erroneous--can be carried through and the enterprises must carry them out. This will make it impossible for the process of implementing plans to produce a restraining effect on the planning departments. Naturally the planning departments will not be stimulated to raise the scientific level of their planning, and all kinds of unscientific and stupid planning will be unavoidable. Besides, the process of implementing plans should actually be a process of testing and perfecting the plans. If we take mandatory planning simply to be compulsory planning, then the process of implementing plans will become a process of enforcing orders. This will make it impossible to test whether the plans are scientific or not, and to correct unscientific, even erroneous, plans in time.

Second, the process of implementing plans is made possible chiefly by administrative means. Under socialist conditions, economic, administrative and legal means are three indispensable means by which the state carries out planned management of the national economy. These three means have their own characteristics and they supplement each other. In order to effectively carry out planned economic management, we must make comprehensive use of these three means. In particular, we must bring economic means into play in planned management. However, if we take mandatory planning simply to be compulsory planning, we will unavoidably reject and negate the role of economic and legal means. This is because under such circumstances, the entire process of implementing plans is made possible by means of compulsion. The enterprises are compelled to accept plans they do not want to accept, and are compelled to carry out plans they do not want to carry out. Thus, economic and legal means become something dispensable, with no grounds or conditions to play their part. In the past, we simply made use of administrative means in planned management. The theoretical root of this mainly rested with the negation of the socialist economy as a commodity economy. But it was also directly related to the fact that the compulsory nature of mandatory planning was emphasized in both theory and practice. Thus, unless we negate the compulsory nature of mandatory planning, we will not be able to change the former practice of simply relying on administrative means to manage the economy, and will not be able to truly bring into play the role of economic and legal means in planned management.

How then should we see mandatory planning within the socialist economy? In my opinion, mandatory planning should be regarded as binding but not compulsory. Binding mandatory planning and compulsory mandatory planning are different not

only in concept but also in content. Compulsory mandatory planning is the product of administrative relations of jurisdiction. It is a unilateral relationship of rights and obligations. In the economic relationship and intercourse between the state and the enterprises, the state generally only enjoys rights while the enterprises only accept obligations. The state can restrain the enterprises, but not the other way around. The enterprises must take orders from the state in its major economic activities, and their decisionmaking power and economic interests in production and operations are not given the necessary guarantees. Binding mandatory planning is quite different from this. Its basic feature is a bilateral relationship of rights and obligations. In other words, the binding force of this kind of mandatory planning not only keeps the enterprises within bounds but also keeps the state within bounds. When the state asks the enterprises to accept tasks covered by mandatory planning, it must ensure that the enterprises can obtain economic benefits at least equal to those they would obtain under guidance planning. If the enterprises require, the state must also create the necessary external conditions for the supply of raw and semi-finished materials, the transport and sale of products, and so on. If mandatory planning is neither scientific nor comprehensive and the economic benefits of the enterprises are not given the necessary guarantees, then the enterprises will have the right to ask the state to modify its mandatory plans or even refuse to accept them. This kind of mandatory planning must be implemented through economic contracts. After the contracts for mandatory plans have been signed according to law, the state will have the right to require the enterprises to fulfill the planned targets and will have the obligation to ensure the supply of raw and semifinished materials and also the transport and sale of products. On the other hand, the enterprises will have the obligation to fulfill the planned targets and the right to ask the state to guarantee the supply of raw and semifinished materials and also the transport and sale of products. This bilateral relationship of rights and obligations will be established in accordance with state laws and will be supervised and protected by state laws. If, after the contracts have been signed, the enterprises fail to fulfill their obligations, the state will have the right to bring the matter to the attention of the contract management authorities or economic courts and hold the enterprises responsible for breach of contract according to law. If the state fails to fulfill its obligations, the enterprises can also make the state bear economic, administrative, and even legal liabilities according to law. Only in this way will the state feel impelled to raise the scientific level of its planning and hence truly act according to the principle of the commodity economy in organizing economic activities and truly establish mandatory planning on the basis of the commodity economy.

In reality, there are long-standing misconceptions about mandatory planning. The first is the concept that "planning is law." A serious drawback of this concept is that it emphasizes the solemnity of planning alone and negates the flexibility of planning. Once decided on, plans must be fully implemented and cannot be modified promptly according to market changes. This is in fact a negation of the commodity economy principles. The decisionmaking powers of enterprises in production and operations, as well as their independent economic

interests, are also negated. Moreover, directly equating planning with the law is also theoretically unscientific. Laws are relatively stable, while planning should be relatively flexible. Laws are formulated according to legislative procedures, whereas planning is formulated by economic management departments. Law is a kind of norm of conduct, whereas planning is a means of organizing the economy. They have different natures. The second is the concept that "where there is a state, there is compulsion, and the compulsory nature of mandatory planning is an unalterable principle." This in fact confuses the compulsory nature of law with that of administration. The compulsory nature of administration refers to the relationship between the higher authorities and their subordinates within the administrative system. The higher authorities can exercise compulsion over their subordinates, but not the other way around. This is a kind of administrative jurisdictional relationship. The compulsory nature of law is quite different. Everyone is equal before the law. The compulsory nature of law is applicable to all departments, enterprises, and individuals. The state may compel the enterprises to do something according to law, the enterprises may also compel the state to do something according to law. Any department, enterprise, or individual that violates the law shall, without exception, be punished according to law. This is precisely where these two kinds of compulsion differ. Directly equating state planning with law and confusing legal compulsion with administrative compulsion have long been an important theoretical basis for those people who take mandatory planning simply to be compulsory planning. In order to truly establish mandatory planning on the basis of the commodity economy, we must abandon these outmoded traditional concepts and clarify these muddled ideas that have been popular for so long.

Some comrades may ask: If the compulsory nature of mandatory planning is negated, would not mandatory planning and guidance planning be virtually the same? Indeed, there are many similarities between planning and guidance planning. For example, the aims of implementing these two forms of planned management are the same; the principal theoretical basis on which they rely are the same, and their forms of expression in actual application are also very much the same (both have to be implemented and realized through economic contracts). However, if we analyze them more carefully, we will notice that there is an obvious difference between these two forms of planned management. First, mandatory planning stipulates specific material targets, whereas guidance planning only stipulates the direction of development. Second, when the mandatory form of planning is adopted, the state must guarantee the supply of raw and semifinished materials and also the transport and sale of products. Guidance planning does not have to provide such guarantees. Third, both mandatory planning and guidance planning have to be implemented through economic contracts. But under the mandatory form of planning, the dominant contracting party is the leading economic organ that represents the state, or its consignee. When drawing up contracts, necessary readjustments can be made by making use of certain economic levers. Under the guidance form of planning, the contracting parties may be grassroots-level units that are engaged in microeconomic activities. The two parties can only enter into economic contracts voluntarily within the scope prescribed by policies (such as within a given range of price fluctuation). In other words, mandatory planning only has features different from guidance planning. It is not a higher form of planned management than guidance planning.

Some comrades may also ask: If the compulsory nature of mandatory planning is negated, what can we do about enterprises that do not accept tasks assigned by the state in the form of mandatory planning? In my opinion, our understanding of this question cannot be preconditioned by the present disharmonious economic relations. If the pricing system is made basically reasonable through reform, the price of products covered by mandatory planning will be at the same level as those covered by guidance planning. Under this situation, enterprises that accept mandatory planning will have an obvious advantage over those accepting other forms of planning. Thus enterprises will show greater enthusiasm in accepting mandatory planning. Because the supply of raw and semifinished materials and the transport and sale of products are guaranteed under mandatory planning funds, facilities and staff to be used by enterprises in purchasing raw and semifinished materials and selling their products can be greatly reduced. The duration of commodity circulation will be shortened, and the cost of circulation reduced. In this way, more manpower and funds can be used on expanding the scale of production and on the technological transformation of enterprises. This is beneficial to increasing the economic results of enterprises. Following the deepening of economic restructuring, in particular, competition among enterprises will go into full swing. In this situation, the question of the market, that is, the product realization, will have a decisive effect on the fate of the enterprises. If the enterprises can secure a fairly steady source of raw and semifinished materials, and the goods they produce can be realized without any difficulty, they will find themselves in an competitive position. On the other hand, if they cannot secure a steady source of raw and semifinished materials and the goods they produce do not sell quickly or do not all sell quickly, they will find themselves in a uncompetitive position. They will even be in danger of being eliminated. Thus, from the production of goods to the realization of value, the enterprises are taking a "breathtaking leap." This is particularly true for medium-sized and small enterprises that are technologically backward and do not have ample funds. In this situation, enterprises will be more than happy to accept tasks assigned by the state in the form of mandatory planning. We can anticipate that following the deepening of the reform of the economic system, with the scientific nature of planning greatly enhanced, the pricing system being made basically rational, and competition coming into full swing, there will appear a situation where all types of enterprises vie to accept tasks assigned by the state in the form of mandatory planning and sign contracts with the state for this purpose. If, in this situation, individual enterprises still show an unwillingness to accept tasks assigned by the state in the form of mandatory planning in regard to certain goods, the state may resort to various economic means, such as credit and pricing, to induce these enterprises to accept the state plans and to sign economic contracts for tasks covered by mandatory planning.

## II. The Necessity of Mandatory Planning Lies in the Objective Need To Maintain an Overall Balance

Among China's academic circles, there are mainly three views on the necessity of carrying out mandatory planning within the socialist economy:

The first view holds that the necessity of mandatory planning is determined by the socialist ownership of the means of production by the whole people. It is seen to be an important manifestation of the socialist ownership of the means of production by the whole people in the organization and management of production.

The second view holds that the necessity of mandatory planning is determined by the fact that China is a big but poor country.

The third view holds that the necessity of mandatory planning is determined by its position and role. Mandatory planning determines the director of social and economic development, as well as the nature and scope of its own role.

In my opinion, none of these views have grasped the essence of the problem or have found the most profound economic roots of mandatory planning within the socialist economy.

Let us begin with the first view. It is theoretically and practically unjustifiable to say that the necessity of mandatory planning is determined by the socialist ownership of the means of production by the whole people. First, it fails to show why, in actual economic life, some enterprises owned by the whole people have to carry out mandatory planning while others do not; why all production and sale of some goods produced by enterprises owned by the whole people is subject to mandatory planning while only some of the production and sale of other goods produced by enterprises owned by the whole people is subject to mandatory planning, and why, within the same enterprise owned by the whole people, some products are entirely subject to mandatory planning while others are not subject to, or merely partially subject to, mandatory planning. Since there is a necessary link between mandatory planning and socialist ownership by the whole people, all enterprises owned by the whole people should, without exception, be subject to mandatory planning. Second, it fails to show why some collectively-owned enterprises or certain goods produced by these enterprises should be subject to mandatory planning. For example, some of the grain, oils, cured tobacco, cotton, and hemp produced by collective production units in the rural areas are also subject to state management in the form of mandatory planning. This view is not suitable because it fails to answer these questions.

Let us now look at the second view. An obvious drawback of this view is that it sees mandatory planning as unique to China and fails to see it as something widely found in countries that practice a planned economy. It fails to show why mandatory planning has to be carried out in the Soviet Union which is so much bigger than our country, or in the GDR, Bulgaria, Romania, and other countries so much smaller than China. Thus, this view also fails to fundamentally explain the economic roots of mandatory planning.

The third view actually sees mandatory planning as the substance of the planned economy rather than as a means and form of planned management. This traditional view which equates mandatory planning with the planned economy and holds that the planned economy will cease to exist if mandatory planning no longer occupies a dominant position.

What then is the necessity of mandatory planning determined by? In my opinion, it is determined by the objective need to maintain an overall balance. Socialism is a socioeconomic system that is superior to capitalism. An important aspect of this superiority is that the social economy can cater to the objective needs of the growth of the productive forces and the socialization of production, maintain an overall balance of the national economy,



and thus ensure the balanced and coordinated growth of the national economy. The establishment of the socialist public ownership of the means of production has created the basis conditions for us to practice the planned economy. It has also enabled the state to manage the national economy in a planned way on behalf of all the people. But the form of planned management to be adopted and the proportion occupied by various forms of planned management are entirely determined by the objective need to maintain an overall balance. There is no necessary link between this and the concrete form of the public ownership of the means of production. In order to maintain an overall balance of the national economy, the state may adopt diversified forms of management and utilize various means of regulation. It may adopt mandatory planning, or it may adopt guidance planning. It may resort to regulation by planning, or it may resort to regulation by the market mechanism.

Thus, there is no doubt about mandatory planning being one of the forms through which an overall balance of the national economy can be maintained. As to why it is a necessary form, we must begin by explaining the special role it plays under certain circumstances, a role that other forms of planned management cannot play.

First, mandatory planning has greater effectiveness for a given period of time. The distinguishing feature of mandatory planning is that it stipulates specific material targets and binds the parties concerned to ensure the attainment of these targets. Thus, when imbalance between major economic sectors appears, or when serious imbalance between the supply of and demand for certain important products occurs, we can quickly bring about coordinated development of the national economy and achieve balanced supply and demand through mandatory planning. Guidance planning is more flexible. But this kind of planning only guides the direction of production. It does not stipulate specific material targets. When a serious imbalance between various economic sectors appears, or when a serious imbalance between the supply of and demand for products occurs, guidance planning can also ultimately bring about a balance between various sectors and between supply and demand. But this often takes time. In the course of this, heavy economic losses and waste arising from imbalances between various economic sectors and from irrational relations between supply and demand are unavoidable. It is precisely for the sake of avoiding such losses and waste that a socialist country must not simply make use of mandatory planning in its efforts to maintain an overall balance, but must combine guidance planning with mandatory planning.

Second, mandatory planning is more capable of arousing the enthusiasm of enterprises for production and more conducive to the realization of an economic balance than other forms of planned management under given conditions. From actual economic activities of the past, we can see clearly that according to the traditional concept and method of compulsory mandatory planning, which is based on the product economy, accepting mandatory tasks is indeed not a small burden for enterprises. But, according to the above-mentioned concept and method of mandatory planning, which is based on the commodity economy, enterprises that accept mandatory tasks will be duly rewarded economically. They will have a competitive advantage and will be able to further bring into play their enthusiasm in developing production and increasing economic results.

In short, binding mandatory planning based on the commodity economy can, on the one hand, effectively organize microeconomic activities and guarantee the realization of the key part of the state's overall plan; on the other hand, it enables the enterprises to make bigger gains, to fully bring into play their initiative in operations, and hence to bring about a balanced state in the social economy and to more effectively exercise macroeconomic control over the economy. We may say that under given conditions and within a given scope, mandatory planning plays an irreplaceable and positive role in maintaining an overall balance in the national economy. Correctly utilizing it is crucial to the planned management of the national economy.

Every economic theory should stress practicality. In that case, to what extent can this kind of binding mandatory planning be utilized? This is determined by the need to maintain an overall balance and by the inherent qualities of mandatory planning.

First, the operational scope of mandatory planning is determined by the conditions for bringing about an overall balance in the national economy and the level attained. Limited by the present level of the development of the productive forces and level of planned management, it is impossible to include everything in the overall balance of the national economy. We can only exercise control over major matters and ensure the appropriate proportions between the major economic sectors so that the national economy can, in general, develop in a balanced and coordinated way. This determines that under no circumstances should mandatory planning exercise excessive and over-rigid control beyond the scope covered by the overall balance of the national economy.

Second, the need to maintain an overall balance determines the proportion occupied by mandatory planning. In the planned management of the national economy, the proportions occupied by mandatory planning and guidance planning are entirely determined by the objective need to maintain the overall balance of the national economy. They are not subjectively fixed by man. Apart from being needed in the readjustment of proportions among the major economic branches, the supply-demand situation regarding products is also an important basis for determining the extent to which mandatory planning can be utilized. Although some products are of vital importance to the national economy and the people's livelihood, it is all right not to subject them to mandatory planning if a roughly balanced supply-demand situation can be brought about through guidance planning. On the contrary, although some products are not important products, they may be brought under mandatory planning if an imbalance in their supply and demand has affected the overall balance of the national economy and it is impossible to quickly bring about a balanced supply-demand situation through guidance planning. If the same type of product can be subject to both mandatory planning and guidance planning, what form of management should we adopt? This depends on which form of planning is the most beneficial to increasing the economic benefits of enterprises and of society and the most conducive to bringing about the most favorable proportions.

Third, in implementing mandatory planning, the state must expend a lot of energy to create the necessary conditions for the enterprises. In individual cases, the state may have to subsidize the enterprises. Thus, if we can more or less balance supply and demand by relying on guidance planning, there is no need to carry out mandatory planning.

Here, I would like to mention in passing that in terms of economic structure, the scope of implementation of mandatory planning should not be confined to units owned by the whole people alone. Socialist macroeconomic activities include various levels of the microeconomy. They are not solely engaged in by units owned by the whole people. Thus, mandatory planning should also be applicable to collectively-owned enterprises and other economic levels. On the whole, as long as there is a social need and as long as the enterprises are willing to do so, any economic level can become party to contracts for mandatory tasks. According to the new concept and method of mandatory planning, enterprises and units that have entered into contracts for mandatory tasks are entitled to more economic benefits. In principle, economic units at all levels should, without exception, be in a position to make profits. No favoritism should be allowed.

In short, when economic relations in the whole society have been appropriately settled and when a general harmony between the major economic sectors can be attained through guidance planning, mandatory planning can be reduced to a minimum, even done away with, and guidance planning can become the principal form of planned management. Under such circumstances, enterprises owned by the whole people will not necessarily have to practice mandatory planning. When economic development is not well-coordinated, or when imbalance occurs in the supply of and demand for certain products, and it is impossible to quickly bring about harmony between the various economic sectors and in the supply-demand situation, mandatory planning will be utilized, sometimes to such a great extent that it becomes the principal form of planned management. Under such circumstances, it is all right to apply mandatory planning to collectively-owned enterprises or other economic levels. Because the socialist economy advances in movements of opposites and develops with the alternating course of balance and imbalance, mandatory planning as a concrete form of socialist planned management cannot be done away with once and for all. However, it is possible to adjust its scope. We must not judge the planned economy by the scope of mandatory planning.

Of course, like any other thing, this kind of binding mandatory planning also has its limitations and has problems that have yet to be more thoroughly resolved. Take the question of raising the scientific nature of planning work for example. Mandatory planning, even if it is of a binding nature, may be subjective in certain respects if the planners do not have a full grasp of economic information and have not made a basically correct forecast of future economic development. This is because the conditions for its fulfillment, the economic levers utilized, and various regulations are controlled by the planners. This affects the raising of the scientific level of planning. This situation will change with the unfolding of information work and the development of the means of planning. But the fundamental solution of this problem still depends on further theoretical research on how to protect the automatic feedback mechanism of economic movements under mandatory planning.

### III. The Question of Pricing in Mandatory Planning

The question of pricing is an important issue in theoretical research and actual work on mandatory planning. The traditional concept is that the difference between mandatory planning and guidance planning lies in the fact that the former is implemented and carried out mainly through administrative means, while the latter is realized mainly through economic means. In other words, mandatory planning is realized by means of compulsion, whereas guidance planning is realized through consultation. Mandatory planning means fixed prices; guidance planning means floating prices. This concept is quite unacceptable. In fact, this concept still places the two forms of planning on two different operating mechanisms, holding that mandatory planning is based on the product economy while guidance planning is based on the commodity economy. Under conditions of the commodity economy, state planning, whether it is meant to be mandatory or to serve as guidance, must be based on the law of value. In actual economic life, the role of the law of value is to a large extent manifested through the pricing of products. Thus, if we are to respect and apply the law of value in planned management, we must not only negate the compulsory nature of mandatory planning but must see to it that the prices of products covered by mandatory planning and those covered by guidance planning are the same in accordance with the principles of equality and mutual benefit and of compensation at equal value in the commodity economy. In other words, the difference between mandatory planning and guidance planning does not lie in the notion that there are two sets of prices of products covered by the two kinds of planning. The traditional concept, where products covered by mandatory planning can only have fixed prices and only products covered by guidance planning can have floating prices, is actually tantamount to negating the identical basis for the pricing of commodities and is not conducive to fully bringing into play the role of the law of value. Moreover, if there are two sets of prices for planned products, there is bound to be two targets of pursuit within the same enterprise because the ceiling of floating prices is usually higher than that of fixed prices. Because of this, enterprises will naturally only be willing to accept guidance planning and not mandatory planning. This will make it very difficult to change the present economic situation where goods produced for self-marketing are available in all varieties, whereas products covered by mandatory planning do not find a market. This is bound to be even more so following the switch from delivery of profits to payment of taxes, where competition between enterprises is in full swing and profits have become the direct production goal of enterprises. Why was there the vicious cycle in our economy, where products in short supply were put under unified state control, and products under unified state control fell into shorter and shorter supply? The fundamental reason for this was that the more we put products in short supply under mandatory planning, the more rigid prices became and the less the enterprises wanted to produce them. Why is it difficult to invigorate the large enterprises? The fundamental reason is the same. It is because products turned out by the large enterprises are mostly of great importance to the national economy and the people's livelihood. These products are now subject to mandatory planning and sold at fixed prices. Thus, it is very difficult to invigorate the large enterprises. On the other hand, it is easy to invigorate medium-sized and

small enterprises that produce ordinary goods. Thus, in order to truly invigorate the enterprises, particularly the large enterprises, it is necessary to do something about pricing and make pricing for products covered by mandatory planning and those covered by guidance planning consistent. Seen from the present situation, this is not easy. But with the deepening of the reform of the economic system, the scope and varieties of products covered by mandatory planning and sold at fixed prices should be gradually reduced, while those covered by guidance planning and sold at floating prices should be gradually increased, so that eventually products covered by mandatory planning and those covered by guidance planning will come under the same pricing. In other words, on the question of the planned pricing of products, what we should work on from now on is neither fixed prices nor free prices, but floating prices. In this way, we can ensure the state's macroeconomic control of economic activities, that is, setting the range of price floatation. At the same time, we can ensure independent operation by the enterprises, that is, fixing prices themselves within the prescribed range. By combining the unified nature of planning with flexibility, a flexible system of planned management can be established.

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## ECONOMIC MANAGEMENT

### UNDERSTANDING OF MODERNIZED MANAGEMENT DISCUSSED

Beijing QIYE GUANLI [ENTERPRISE MANAGEMENT] in Chinese No 9, 5 Sep 84  
pp 49-51

[Article by Zhang Pingqian [1728 0756 0051]: "Question of Understanding About Modernized Enterprise Management"]

[Text] To meet the requirements of the reform of industrial structure and the all-round reorganization of enterprises, there is now an urgent need to include the question of modernizing enterprise management in the agenda. However, there are many different interpretations in both theory and practice, and even disputes as to what modernization of enterprise management is and how it can be accomplished. This article will attempt to explore some of these questions.

#### (1) What Is Enterprise Management

To study the modernization of enterprise management, we must first clarify what management is. There are now many related theories, such as the theory of functions, the theory of political decisions, the theory of organization, and so forth. In my opinion, we should take an all-round and dialectical approach to this question.

First, as a science, management should be a comprehensive and multi-disciplinary one which transcends the border between social science and natural science and dealing mainly with the relations of production. As a task, management is also a comprehensive one of many different professions and involving many levels. First of all, it deals with the relations of production including the various relations among the people in an enterprise as well as the enterprise's relations with the state, the customers or consumers, the cooperating units and the suppliers. Second, management means the organization of productive forces, or organization of the three material elements for productive operational activities. In addition, management also touches on such questions of the superstructure as political power, political parties, law, morality and human feelings. Therefore, under the sweeping heading of management, there are many specialized subjects, such as the science of enterprise management and many related subjects dealing mainly with the relations of production; management engineering, production organization science, technical economics, and many others, all dealing

mainly with the rational organization of productive forces. Broadly speaking, the subjects for the workers' ideological and political education and the other subjects related to the superstructure can also be regarded as the important components of enterprise management.

Second, management should be an applied science. As a science, like other sciences, it has its own theories, rules and methods. However, these theories, rules and methods are the result of the application of other basic scientific laws, such as the law of science and technology, the economic law, the political-ideological law (including the sciences of administration, organization and law) and socio-psychological law (called "organizational behavior" in Western countries), and so forth. For the application of these scientific laws in management, there are such corresponding methods as the technological method, the economic method, the ideological-political method, the administrative and legal method and the socio-psychological method. Among all these laws and methods, the economic law and economic methods play the major roles.

In summary, management is a comprehensive science mainly dealing with the relations of production. The conclusion that it represents several functions, policy decisions or the organization of productive forces only is not comprehensive enough.

## (2) What Is Modernization of Enterprise Management

This question can be answered in many different ways, but some comrades have attempted to give it one complete and accurate definition. This should be very useful. In my opinion, however, we should first clarify three essential questions, such as the questions of indications, substance and the process of realization in management modernization.

First, let us talk about the indications. Up to what point should we proceed before the management can be modernized? This is the opinion of some Japanese management experts: When the products of an enterprise can compete with foreign products in the world market and the theory of its management has become an established school of thought, the management may generally be regarded as modernized. According to these indications, they believe that Japan accomplished management modernization in the mid-1970's. This line of reasoning can be used for our reference. We believe, however, that the production of competitive products without good economic results is not good enough. Therefore, the indications of management modernization may be tentatively as follows: The enterprise's major economic indices and its leading products are up to the advanced world standards, and the mode and system of its management have their unique features and are in the ranks of advanced managements of the world.

Next, about the substance. At present, a fairly common understanding of modernized management is based on modernization in four respects: modernized management thought, modernized management organization, modernized management methods, and modernized management means. The actual substance of modernized

organization, methods and means is fairly distinctive, but not that of modernized management thought. I am inclined to choose the following five thoughts and concepts as the main substance of modernized management.

First, there must be the ideas of "changing the orbit" and "changing the mode." "Changing the orbit" means the change from a one-sided quest for output value and speed to a method with economic results as its central goal. According to the course of development in the theory of management science, this means the handling of the relationship between efficiency and result, and a change from stressing efficiency to stressing results or benefits. The "change of mode" refers to the change from the mode of production to the mode of production and business operation now, and probably to the mode of business operation or the mode of business operation development in future. To accomplish the "change of mode," we must uphold planned economy as the prerequisite and form the idea of socialist commodity production and commodity exchange. To be specific, we must form the three major concepts of market, competition and business operation; change from stressing convenience to production to stressing convenience to customers according to the guiding thought of running enterprises; and attach great importance to the question of policy decisions in enterprise operation.

Second, there should be a change from attention to the management of inanimate objects to even greater attention to the management of human beings, to the role of the socialist enthusiasm of all the workers and staff members, and to the improvement of human quality. The reason is that, in the first place, giving full play to the socialist enthusiasm of all workers and staff members is an important manifestation of the superiority of socialist enterprises; and, in the second place, the human role is becoming increasingly important from the standpoint of large-scale socialized production and the new technical revolution.

Third, there must be the concept of time and the understanding that "time is money."

Fourth, there must be the concept of information and system, so that the information will be accurate and timely in a system of information management.

Fifth, we must have the spirit to continue innovations.

When we have these ideas and concepts and can fruitfully translate them into action, we may be generally said to have modernized our ideas of management.

I believe that the process of management modernization is that of reform and development of management. As far as the objective is concerned, the modernization of management is dynamic in nature, since the mode and system of management, no matter how advanced they are in the world, will all continue to develop and change. As for the substance, the modernization of management, either in the four respects mentioned or in scores of others, means in the final analysis the continual readjustment and improvement of



the relations of production and the corresponding superstructure, and a more rational organization of the productive forces. The former is embodied in the reform of enterprise management which we are now carrying out, and the latter may be considered the development of management.

In carrying out the reform and development of enterprise management, we must carefully recognize and handle several relationships.

First, we must clarify the relationship between the reform of management system and the modernization of management. Reform is the motive power as well as an important component of management while modernization of management is a component as well as an important guarantee of success in reform. The two are closely related and inseparable.

Second, we must carefully handle the relationship between the traditional experiences of management and the modernization of management. The set of rules formed in more than 30 years for enterprise management must be scientifically analyzed. Some of them can be inherited, others can be developed, and still others can be reformed. We cannot act blindly on a none-or-all basis.

Third, we must dialectically view and handle the relationship between the basic work of management and the modernization of management. In spirit, we must highly regard basic work and be soberly aware that if our basic work is not solid, it will be difficult to modernize the management smoothly; and that if the numeral data are inaccurate, it will be difficult for the computer to play its full role. However, this cannot be interpreted in absolute terms. For example, speaking of the accuracy of numeral data, it does not mean that there cannot possibly be the slightest error. Let us take for example the actual number of hours spent on a job for which fixed time is allotted. Unless the factory is fully automatized, no enterprise at home or abroad can be 100 percent accurate. However, computers can still be used and modernization can still be attempted. Furthermore, the use of computers in management modernization can in turn help improve and develop the basic work.

Fourth, we must carefully handle the relationship between gradual progress and forward leap. Now, while studying the policy toward the new technical revolution, everyone is hoping that we can take a forward leap in many respects. In management, a forward leap is sometimes possible and necessary. In choosing the models of computers, for example, we do not want the backward types when the advanced types are available. Computers are developing very fast. Their functions are increasing, their dimensions are becoming smaller and smaller, their prices are becoming lower and lower, and their operation is becoming more and more convenient. Therefore, we must use the most up-to-date models. There is no need for us to start with the old models and then update them slowly. On the whole, however, the modernization of management should be gradual, or stage by stage instead of by leaps and bounds. In learning the advanced methods of management from foreign countries, we cannot master them at once, and may "bungle" for

a while. This is not important, because we can gradually improve later on.

Finally, we must have a correct attitude toward foreign experiences in management. Whenever we mentioned the need to form, step by step, a Chinese socialist and modernized system of enterprise management, some comrades would insist that in management, modernization does not mean foreignization or westernization. This is certainly correct. However, this should not preclude our learning and drawing from the advanced experiences of foreign countries more fruitfully. At present, our knowledge of foreign things is not too much but far too little. This is not helpful to the progress of our management modernization. To understand and study foreign management and to copy and adopt it wholesale as though it is something sacred are two entirely different and unconnected issues. Given a correct guiding thought, we must understand foreign management more extensively and thoroughly before we can compare the various methods and different schools of thought, make use of the good ones and avoid the bad ones, achieve mastery through a comprehensive study of them, and choose what is suitable for ourselves. On the contrary, if our guiding thought is incorrect, and our knowledge of foreign things is scanty, we may either blindly reject everything from foreigners or commit the mistake of copy or adopting foreign models wholesale. Furthermore, as mentioned earlier, one of the main indications of management modernization in an enterprise are its major economic indices and its ability to raise its leading products up to the advanced international standards. How can our enterprises give such a performance if they do not know how the situation is developing in the foreign countries?

### (3) What Are the Mode and System of Modernized Enterprises

In modernizing our management, we must have modernization in the mode and system of management instead of limiting it to certain links, methods, or means of management. There should be no doubt on this point. However, there are different views on this mode and system. In my view, the mode of management and the system of management are two different concepts, between which there is relationship as well as distinction. The mode of management should be a basic form of the relations of production or the basic relationship among people. The system of management, on the other hand, refers to the concrete form of organization of productive forces, or the combination of various professional managements with the organizational structure into an organic system according to the theory of system engineering. In the case of our state-owned socialist enterprises, the modes of management should be basically identical, while the system of management should vary in different trades and types, and each system should have its own special features.

The mode of management of our state-owned enterprises began to take shape during the reform, as shown by the combination of responsibility, rights and interests with contract responsibility, guarantee and evaluation as the core in the economic responsibility system first adopted in Shoudu Iron and Steel Company.

As to the system of management, the methods used and the way of formulation differ greatly in all countries including our own, because of the differences in conditions and viewpoints among different enterprises and schools of thought. In our country, the methods and formulations are numerous, roughly not less than several scores. For example, some advocate a three-level management system: the upper level for overall planning management; the middle level for the "three totals"--namely, total technical quality management, total economic accounting and total labor and personnel management; and the lower level for various special managements. Others advocate the forming of a network according to the system of information control including the policy decision system, technology development system, executive system, control system, and so forth. Still others are in favor of eliminating the middle level and the division of the business policy decision system into more than 20 specialized management bodies. For the change from the mode of production to the mode of operation, many enterprises are gradually setting up the systems of research in development, production technique and sales service. These are in fact the functions of the middle level. As the situation now stands, there may probably be some debates on the question of management system for some time, finally ending up in a number of systems which are generally similar and yet having special features of their own according to different trades and types of enterprises. This question can only be settled gradually through study in practice and theory. What we should be careful about is that the comrades engaged in practical work should not be tied down by certain theories, while those comrades engaged in theoretical study should encourage everyone to explore bravely in practice instead of defending their own views tenaciously.

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## ECONOMIC MANAGEMENT

### LOCAL ECONOMIC COMMISSION ON ENTERPRISE MANAGEMENT

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pp 27-29

[Article by Staff Office of Sanming Municipal Economic Commission:  
"Implement the Policy of 'Loosening the Fetters' and Delegating Power to  
Lower Levels; Establish, Strengthen the Economic Responsibility System"]

[Text]

(1)

For a long time, our standard of enterprise management has been low and our economic results failed to keep pace with those of other countries. One of the reasons for this situation is that the enterprises do not have the decisionmaking power they should have, and their initiative and creativity are stifled. In the past several months, thanks to the concern and support of the provincial and municipal authorities, we have treated the work of supporting the reform by "loosening the fetters" and delegating power to the lower levels, assisting the enterprises to obtain more power and to use the power well, and enforcing the contract system as the central task of the party committee of the economic commission. In the spirit of party rectification, we decided to conscientiously implement the policy of "loosening the fetters" and delegating power to the lower levels. By now, the relevant provincial and municipal departments have delegated more administrative power to the enterprises in handling personnel, labor, production, business operation and the use of funds. (1) The power to appoint and dismiss cadres. The factory director (or manager) will have the power to nominate his subordinates and report such nomination to the department in charge for approval. He also has the power to name the persons to be employed or dismissed as middle-level cadres in enterprises. (2) The power of personnel transfer. After mutual consultation, the enterprises in the municipality will have the power to transfer ordinary cadres and workers within the municipality, and to handle the transfer procedures directly. (3) The power to recruit and use the work force. Within the norms and limits approved by the labor department, the enterprise will have the power to recruit its own work force openly and to choose its new workers. (4) The power to administer rewards and punishments and to practise the system of floating bonus linked with taxes. The director (or manager) will have the power to reward or punish the workers and staff members, including the power to pay special bonuses, to promote or reward as well as to dismiss

and punish the personnel. (5) The power to determine the forms of wages. The enterprise will have the power to determine the forms of wages for its workers and staff members, such as piece-work wages, floating wages, overtime pay, floating promotion, floating subsidy for particular jobs and particular posts; and to initiate wage reforms financed by themselves. (6) The power of internal structural establishment. Within the limits prescribed by the higher authorities, the enterprise will have the power to determine its own structural establishment and its required personnel according to its own needs. (7) The decision making power in production and operation. After ensuring the fulfillment of state plans and state contracts for the supply of goods, the industrial enterprises will have the power to produce more goods that are needed for national construction and are in demand on the market. They can also sell some of their own products. The commercial enterprises, after ensuring the fulfillment of state plans for commodity supplies, will have the power to skip certain intermediate links or to cross departmental borders in purchasing what they want as well as selling what is in demand on the market. (8) The power of using floating prices. Industrial enterprises will have the power to set the prices of the products to be sold by themselves and the commercial enterprises can do likewise for the commodities under their jurisdiction. These prices can be set flexibly according to the changes in the market and as required for competition. (9) The power for combining production and operation. The enterprises will have the power to participate in, or to organize combined operation across regional and departmental boundaries, and to organize cooperative production or the farming-out of products. (10) The power to retain profits after delivering the required proportion and paying the taxes. For example, the enterprises can appropriate 2-5 percent of the total retained profit for the director's (or manager's) fund which can be used by him for special bonuses and special expenses in business activities.

(2)

The reform which has spread from agriculture to industry and from the countryside to the cities has popularized the economic responsibility system and further solved the problem of enterprises "eating from the same pot" of the state, and workers "eating from the same pot" of the enterprise. The enterprises are now full of vitality after rapidly changing their former outlook.

At present, the internal economic responsibility system of the industrial and transportation enterprises in the municipality has generally taken the following forms:

Contracting by quota and rewards for above-quota performance. This type of economic responsibility system has strengthened the accounting system based on quotas in the workshops, work teams and work shifts in the enterprises. A shoe factory in the city carried out the "five fixed-norms (namely, fixed personnel, fixed output, fixed quality, fixed consumption and fixed production cost) and one bonus or compensation" in their work teams and shifts, whereby bonus will be paid for above-quota output and

funds will be deducted as compensation in case of failure to reach quota. This system aroused the enthusiasm of the workers and staff members. In the first quarter of this year, 73,800 pairs of shoes were produced above quota and the enterprises made a profit of 49,000 yuan. The calcium carbide workshop of Yongan Vinyl Mill adopted the system of bonus for above-quota output and deduction of funds for failure to reach output quota. Its monthly output was increased by a wide margin and the production cost of calcium carbide dropped from 383.57 yuan last year to 377.13 yuan per ton. The above-quota output is estimated to be 3,000 tons, and, after being sold on the external markets, will bring 210,000 yuan in profits and 150,000 yuan in taxes, while the above-quota bonuses amounted to only 49,000 yuan.

Piece-work wages and above-quota piece-rate wages. The light industry and the second light industry trades have commonly adopted the systems of piece-work wages and above-quota piece-rate wages. Their work efficiency was greatly improved. No 1 Garment Factory, after adopting the system of above-quota piece-rate wages, increased its output value, output and profits in the first 4 months of this year by 40.29 percent, 33.6 percent and 36 percent respectively over the same period last year.

Floating bonuses and wages. Among the enterprises which have adopted this system are the chemical machinery plant, the machinery repair plant, and the foodstuff plant of Sanming. Under this system, 10-30 percent of the wages are generally combined with the bonuses for floating. According to the principle of "judging the magnitude of responsibility by the coefficient and assessing the magnitude of contributions by the work points," the chemical machinery plant broke down various economic indices into hundreds of small indices to be assigned to 6 production workshops and 22 offices. While calculating the bonuses according to the workshop indices, it also adopted the methods of combining 10 percent of the wages with the bonuses for floating, paying bonuses in proportion to the increase in income, increasing the proportion of bonuses for the key technical and engineering personnel, paying subsidies for particular posts, and so forth to arouse the enthusiasm of its workers and staff members. Its output value, profits and sales taxes in the first 4 months of this year increased by 36.4 percent, 78.6 percent and 62.5 percent respectively over the same period last year. The Sanming Municipal Porcelainware Plant has been in existence for 23 years and incurred losses totaling 918,600 yuan in 18 years. Last year, it began to use 50 percent of the basic wages as floating wages so as to link the personal interests of the workers and staff members closely with the enterprise's economic results. Its production then had an all-round improvement and the losses were turned into profits in the same year, with the annual production plan fulfilled 3 months ahead of schedule. Its production in the first half of this year is even better than in last year.

State-owned enterprises contracted to collectives. Under the economic responsibility system, some state-owned enterprises were contracted to collectives for operation with marked success. Sanming Chemical Machinery Repair Plant was close to losing money last year. Not long ago, a contract group consisting of engineer Zheng Shaohui [6774 4801 6540] and five others

took over the operation in the name of a collective under these arrangements: On the basis of predetermined norms of output value, profits, quality, production and sales, the contract group would be paid a bonus of 1,500 yuan for an annual profit of 10,000-20,000 yuan; a bonus of 3,000 yuan for an annual profit of 20,000-30,000 yuan; and a bonus of 3,600 yuan for an annual profit of more than 30,000. If the enterprise incurs loss, the wages of the contract group would be reduced by 750 yuan for the loss of 10,000-20,000 yuan; by 1,500 yuan for the loss of 20,000-30,000 yuan; and by 1,800 yuan for the loss of more than 30,000 yuan. Furthermore, 10 percent of the funds will be deducted for each of the other unfilled norms. After adopting the contracting system, 20 percent of the wages in the entire plant were combined with the bonus on a floating basis. For the types of work process in which quotas are assigned, there will be above-quota bonuses according to the principle that bonuses has no ceiling and wages have no lower limit. For those types of work processes with no set quotas, the bonus will be strictly proportional to the enterprise's economic gains, that is, more bonus for more gains, less bonus for less gains and no bonus for no gain. In practicing the economic responsibility system, Taijiang Cement Factory of Sanming Municipality contracted the work to several key personnel, such as the kiln attendants and the makers of cement balls. The contract covers output, quality and the proportion and up-to-standard products. There will be rewards for above-quota output and punishments for failure to reach the quota. After the adoption of this system, the products were 100 percent up to the standard (only averaging 70 percent before the adoption of the contract system). The monthly above-quota output was more than 400 tons, and reached 700 tons in May, the highest monthly output in the plant's history. In the first 5 months of this year, its output value reached 637,500 yuan with a profit of 143,000 yuan, an increase of 13.64 percent and 1.75 times respectively over last year.

Responsibility for profit undertaken in the form of mutual pledges. To ensure the fulfillment of its annual profit quota, the companies and the enterprises of the light industry sector in the municipality signed agreements of economic responsibility between them dealing with rewards and punishments. These agreements clearly stipulated that if the enterprise could complete their output value plans and their profit quotas, each person above the rank of deputy factory director would receive a bonus of 50 yuan. If the enterprise fails to reach the quota, each person above the rank of deputy director would be fined 30 yuan. If the enterprise overfulfills its profit quota, part of the above-quota profit would be used as bonus. The building materials sector in the municipality also adopted the system of agreements between the companies and the enterprises concerning rewards and punishments. At the end of every year, a review would be conducted on the three major indices of output value, output and profit. The plant leaders would be rewarded for the fulfillment of these indices and fined for their nonfulfillment. In practicing the economic responsibility system, all the industrial and transportation enterprises in the municipality also adopted such forms of remunerations as wages appropriate to posts, subsidies appropriate to important jobs, and subsidies for scientific and technical personnel, all with fairly good results.

Practice has proved that by following the economic law, strengthening the economic responsibility system in various forms and combining the system with the measures of rewards and punishments organically, so that the economic interests of all parties will be linked with the economic results, it will be possible to fully mobilize the initiative and creativity of the enterprises and their workers and promote the development of economic work. In the first 5 months of this year, when industrial production was faced with the difficulties of energy and raw material shortage, industrial and foreign trade production in our municipality still showed good results with simultaneous increase in output value, profits, profit delivery and tax payment. Of the 15 indices of economic results, 13 showed increase and improvement over the same period last year. The output value was increased by 8.77 percent, profit was increased by 27.23 percent, the profit delivered was increased by 74.8 percent, sales were increased by 16.52 percent, the proportion of enterprises incurring losses and the total amount of losses were reduced by 9.71 percent and 36.98 percent respectively below the same period last year. The increase in profits and taxes paid into the national treasury was even faster than the increase in output value.

(3)

The "loosening of fetters" and delegation of power to lower levels have promoted the reform of the commodity circulation system. In this connection, we have generally performed the following tasks:

1. We organized the purchases and marketing through many different channels, reduced the intermediate links in circulation, and no longer had to rely on the state for the allocation of supplies or to sell our products with a certain degree of coercion. Except for the planned commodities, the wholesale enterprises can buy as sell what they want as long as they are economically rational. In the first 5 months of this year, the total volume of commodities purchased by the second- and third-level wholesale centers amounted to 23.3 percent of the total volume brought in from other parts of the country. The retail enterprises, in addition to the easily marketable commodities brought in through the relevant wholesale agencies, also directly purchased their supplies from the factories and other sources. The sugar, tobacco and liquor supply centers also began their small-scale wholesale service and reduced the amount required for minimum wholesales. They also established small comprehensive warehouses for selling in small lots so that people can look at the samples, pay their money and have their goods delivered, all on the same spot. This is of great convenience to the retail stores, the basic-level supply and marketing cooperatives and the collective and individual dealers, and helped enlarge the volume of sales. In the first 4 months of this year, the volume of wholesales to the collective and individual dealers increased by 20.32 percent over the same period last year.

2. We did business according to the law of value and kept our prices flexible. In accordance with the regulations of price administration worked out by the relevant authorities, the companies dealing in sundry goods, hardwares, means of transportation and chemicals, sugar, tobacco, and liquor



have used flexible prices for minor commodities and included seasonal differentials, differentials for splitting up complete sets, wholesale differentials, design differentials, warranty differentials and cooperative differentials in floating prices. For example, the stores selling electric fans, which are of a seasonal nature, have the power to reduce their prices within a 5 percent margin. If the prices of sundry goods include some design differential or some differential for splitting up a complete set, the enterprise has the power to float the prices within a 10 percent margin. If commodities are bought in large lots, the store can quote a preferential price. Food-stuffs to be sold at negotiated prices can also be sold according to market demand by including a morning or evening differential or location differential in the prices after the determination of their regular prices.

3. Through combined operation and combined marketing, we have expanded the market for local products. When the departments in charge have delegated more power to the lower levels, the industrial and foreign trade enterprises are all aware of their heavier responsibility and have actively formed combinations in operation and marketing. This is an important way for the commercial sector to expand their transactions and to support local industry. Since the beginning of this year, commercial enterprises have undergone new developments in the forms of combined industrial and commercial operation, combined marketing in different places, giving each other the opportunity to make profits, and selling each other's products. In the first 5 months of this year, the municipal shoe factory's output value reached 1,452,000 yuan, a 57 percent increase over the same period last year, and the output of shoes increased by 55.2 percent. The volume cloth shoes procured by the sundry goods centers increased three-fold and their sales more than doubled.

4. We strengthened the system of responsibility for enterprise operation, whereby the individual's material benefits are closely linked with the enterprises' economic results and the efficiency of social services. After the adoption of this system, the business results of various companies as well as the quality of social services were markedly improved. In the first 5 months of this year, compared with the same period last year, the special needs company increased its sales by 28.4 percent and its profits by 15.6 percent, while the foodstuff company reduced its losses by 425,000 yuan, or 32.8 percent. Competition in quality and service among the state-owned units, collectives and individuals have appeared and many stores have taken on a new appearance because of their good services and civilized methods of selling.

5. Labor discipline was strengthened to promote cultural development. The hardware, means of transportation and chemicals center decided to appropriate 5 percent of its bonus fund for the chief of the wholesale department to reward those personnel who gave good performance in buying and selling, saved the state from losses, or rendered good services. Recently, a department store has worked out separate regulations for setting up civilized stores, civilized offices, and civilized buildings, and for offering good services. Any retail store violating discipline or etiquette behind the

counter, and any office workers violating the discipline during their duty hours would be criticized, educated and economically punished in varying degrees.

6. The enterprises' internal structures were changed and talented people were boldly put to use. For the newly established Sanming Trading Company, Ltd., the municipal government appointed only the general manager, while the assistant general managers and middle-level cadres were all appointed by the general manager. In establishing its internal structure, this company intended to break away from the old conventions, and instead of departments and subdepartments, there was only the general manager's office with an office manager and his assistants in charge of various administrative affairs. The assistant general managers were also in charge of different business departments and marketing departments, and under them were the subdepartment managers. The departmental managers and their assistants were responsible for the operation of their own departments. This arrangement raised the work efficiency and suited the requirements of the enterprise's business activities.

There is no ready model for economic restructuring, and we lack the experience. However, more and more comrades have realized that only through reform can the state flourish and the enterprises have the motive power to exist and develop. At present, some enterprises have acquired the power and do not know how to use it. Therefore, the municipal economic commission plans to hold meetings, analyze the conditions, study the policies and earnestly implement them in order to promote the reform.

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ECONOMIC MANAGEMENT

REGULATIONS FOR CONTRACT RESPONSIBILITY SYSTEM IN DALIAN

Beijing QIYE GUANLI [ENTERPRISE MANAGEMENT] in Chinese No 9, 5 Sep 84  
pp 30-31

[Article by Ma Zuquan [7456 4371 6898]: "Regulations of Contract Responsibility System for Technical Transformation Projects in Dalian City"]

[Text] In 1984, Dalian city set up 450 projects for importing technology and technical transformation. To fully mobilize the initiative in various quarters and to ensure the on-time completion of these projects to be put into operation, the municipal economic commission has formulated the regulations for the system of contract responsibility system for technical transformation projects.

The regulations stipulate that the planned projects of the municipality should be separately contracted to the municipal technical transformation office, the general companies (or bureaus) at the county districts, and the enterprises directly under the municipality on an overall basis. The conditions in these overall contracts are: (1) More than 66 percent of the work in terms of the annual investment in technical transformation should be completed. (2) More than 65 percent of the number of projects should be completed. (3) More than 90 percent of the completed projects should be ready for operation. On the basis of overall contracts, project contracts are set up under a system of responsibility whereby key projects are assigned to specially designated persons. Even projects above the municipal level (of more than 500,000 yuan in cost) will be contracted to the responsible persons designated by the municipal technical transformation office, the general corporation (or bureau) and the enterprises concerned.

The conditions for project contracts are: (1) Work should be completed according to, or ahead of, schedule. (2) The amount of investment originally approved must not be exceeded. (3) The quality of work must be up to the designed standards. (4) The completed projects should go into operation smoothly and be able to produce results. In order that material supplies can be guaranteed for these overall contracts and project contracts, there is also the system of supplies contract for the municipal supplies bureau and the departments concerned. (1) For the projects above the municipal level, and based on the budget provided in the designs, a minimum of 90

percent of the three major building materials [steel, timber and cement] will be actually supplied. (2) For ordinary projects above the provincial level, a minimum of 50 percent of the materials will be actually supplied.

The regulations of rewards and punishments for overall contracts are:

(1) For the fulfillment of all three conditions, the bonus will be 200-800 yuan; and for the fulfillment of two, 100-600 yuan. (2) If the work in terms of annual investment and the number of projects are both less than 60 percent (or only 60 percent), or one of them is less than 50 percent, then 15-20 percent of the monthly wages of the mayor, the director of economic commission, the manager and the section chief of the general corporation (or bureau), the county chief, and the county economic commission chief, all being responsible for the project, will be withheld. For project contracts: (1) Provided the contracted project is completed within the planned period (for key projects, the period is stipulated in the signed guarantee. If no guarantee is signed, the period will be calculated according to the plan passed down to the lower levels), the projects will be classified into first, second and third grades and the units undertaking the projects will accordingly appropriate 0.25 percent, 0.20 percent, or 0.15 percent of the investment in the projects as bonus, for rewarding the personnel directly related to these projects. The share of bonus for the factory director (or manager) should not be less than 2 percent of the total amount. For those responsible persons designated by the municipality or the general corporation as their contractors, the municipality will pay a bonus equivalent to 3 percent of the bonus fund. When the key projects costing more than 500,000 yuan each have been classified into first, second and third grades, then 0.20 percent, 0.15 percent and 0.10 percent of the total investment can be appropriated as bonus out of which 3 percent will go to the responsible persons as rewards. (2) If the key projects above the municipal level are completed more than 3 months in arrear, 15-20 percent of the monthly wages of the responsible contractor as well as the bonus of the directly related personnel will be withheld until the completion of the projects. The same regulations will apply to the key projects of more than 500,000 yuan. For supplies contract: (1) If more than 90 percent of the materials for key projects above the municipal level and more than 50 percent of them for ordinary projects above the provincial level have actually been delivered (except for those directly supplied by the enterprises), then 0.50-0.08 percent of the total amount of these materials (calculated at regular prices) will be appropriated as bonus for the directly related personnel. (2) If the materials actually delivered by the supplies departments for the key projects above the municipal level is less than 85 percent and thus affects the smooth progress of the construction, then 1 month's bonus for the director, the section chief and the directly responsible persons will be withheld. In addition, 10 percent of the monthly wages of the director will be withheld.

The contract regulations also provide rewards and punishments for the merits and shortcomings of the personnel of the building units and enterprises. For the building unit: (1) When the agreement is signed, it is permissible for a clause to be included concerning rewards to the contracting party for shortening the construction period. A bonus will be paid according to the

agreement. If any subjective factors on the part of the building unit, such as failure to observe the stipulations in the design or the rules of building, lead to poor quality, delay and serious losses, the building unit will bear the responsibility and compensate the losses. Furthermore, the bonus of the responsible persons will be withheld for 1-3 months. (2) For the reward winning projects, the bonus for the contracting party will be paid by the unit for which the project is built. (3) To the persons responsible for the projects who have given outstanding performances; the personnel who have made outstanding contributions in designing, building and material supplies; and the meritorious persons of the municipal comprehensive departments directly related to technical transformation, there will be commendation, citation for merit, one wage increment and so forth according to the magnitude of merits. The incentive measures for the enterprises are:

(1) If the technical transformation project is completed and put into operation ahead of schedule, the benefits obtained during the advanced period will be used by the enterprise to develop its production. If the completion is delayed for more than 3 months, the allocated funds during the period of delay will be changed to loans for which interest must be paid out of the enterprise's own funds until the project is completed. (2) Technical transformation projects should be completed according to approved specifications, and the funds saved will be retained by the enterprise. If the outlay on the project is more than the approved amount, the excess portion will be paid by the enterprise itself.

The regulations pointed out: The bonus for contracted projects will be paid in cash out of the special bonus funds of the enterprises and is tax-free. The bonus for overall contracts and for the comprehensive departments of the municipality will be paid by the municipality under a unified arrangement.

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FINANCE AND BANKING

AUTHORITATIVE ANSWERS TO QUESTIONS CONCERNING 1985 TREASURY BONDS

Nanjing XINHUA RIBAO in Chinese 25 Dec 84 p 3

[Text] XINHUA, Beijing, 24 December---A responsible person of the Ministry of Finance answered the questions put to him by the correspondent of XINHUA NEWS AGENCY concerning the treasury bonds to be issued in 1985.

Question: Since the economic situation in our country is very good and the financial receipts are increasing fairly rapidly, why is it still necessary to continue the issuance of treasury bonds in 1985?

Answer: Issuing treasury bonds or government bonds as a means of raising construction funds or meeting the government's deficits is quite common in all countries over the world. Nowadays, developed countries as well as developing countries are mostly issuing these bonds as a means of organizing financial receipts. Of course, there is some difference in the nature of treasury bonds or government bonds issued in different countries. In our country, the purpose of issuing them is to concentrate those financial resources which are scattered in the society and then use them in the socialist modernization drive. In the past several years, we raised considerable amounts of money and used to good advantage in accelerating socialist construction. It is true that our economic situation is very good and our financial revenues are increasing fairly rapidly. However, in order to attain the grand strategic objective in our national economy, the state has to do many things. The need for funds in developing industrial and agricultural production, science and technology, culture and education, public health, and other constructive undertakings continues to increase and financial support from the state is also required for the current economic reform. Thus the shortage of construction funds is still a sharp problem restricting our national economic development. To lay a good foundation for the vigorous economic growth in the 1990's, the state has to issue treasury bonds in 1985 to make up the shortage of funds. We may say that the purpose of our continuing to issue treasury bonds in 1985 is to further develop the excellent situation and to accelerate socialist construction.

Question: Will there be any important change in the methods of issuing treasury bonds in 1985?

Answer: The changes will be based on the principle of a closer combination of political mobilization and consideration of the buyers' economic interests.

The main features are a shorter period of redemption, a higher interest rate, and the facilities for the bonds to be discounted at the banks when their owner happens to be in urgent need of money, and for their custody. These changes will provide more favorable terms in their purchase and greater convenience in their safe-keeping, and make them more attractive.

Question: How is the period of redemption with interest stipulated and how is it different from the previous periods?

Answer: In the past, the treasury bonds were redeemed with interest in five installments, beginning with the first in the sixth year after their issuance, and completely redeemed in 10 years. The redemption period for the treasury bonds issued in 1985 will be shortened to 5 years and these bonds will be completely redeemed with interest in one payment on the 6th year after their issuance.

Question: If the people who have bought the bonds are in urgent need of money, what can they do?

Answer: In the past, the treasury bonds could be redeemed with interest only on maturity. The treasury bonds issued in 1985, after being kept by the buyer for a certain period, can be discounted by the bank at the established rate, if the buyer is in urgent need of money. The bonds bought by units can be mortgaged in negotiating bank loans. (The regulations for discounting and mortgaging are formulated by the People's Bank of China.)

Question: Treasury bonds are issued without names, and people cannot report their loss and stop the payment. If people do not have adequate facilities for keeping them, how can their safe custody be ensured?

Answer: A decision has been made by the authorities concerned for the Industrial-Commercial Bank of China to serve as the custodian of treasury bonds. For treasury bonds of 10,000 yuan and more, the annual handling fee is 2 percent; for less than 10,000, 2 yuan per year. Buyers with inadequate safe-keeping facilities can entrust these bonds, either old or new, to the bank. For treasury bonds of more than 1,000 yuan, receipts bearing the buyers' names will be issued and their loss can be reported for action. By this means, the big buyers will not have to worry about their loss.

Question: Is there any change in the amount of issuance of treasury bonds?

Answer: The amount will be increased from 4 billion yuan to 6 billion yuan, an increase of 2 billion yuan, in 1985. This amount was decided by the State Council after an all-round study on the need for funds. On the one hand, along with the national economic development and the acceleration of the economic restructuring, the state will carry out a series of economic reforms in wages and prices in addition to continuing the increase in investments in the key projects of energy and transportation as well as in science, education, culture, public health and sports. In the long run,

these reforms will help improve the economic results and increase the financial revenues. At the beginning, however, the state must take out due financial resources. It is therefore necessary for the state to raise more funds through various channels. On the other hand, along with the development of industrial and agricultural production in the past several years, the income of the urban and rural population has increased fairly rapidly, and their savings deposits increased by more than 10 billion yuan each year. At the end of October this year, the savings deposit balance total more than 100 billion yuan. Particularly after the invigoration of the economy in the vast countryside, well-to-do townships and "ten thousand-yuan households" are appearing in large numbers. There is great potential for the issuance of treasury bonds. Therefore, the increase in the amount of treasury bonds to be issued is appropriate not only for the state's construction plan, but also for the people's purse. Furthermore, in view of the more favorable and attractive terms and the greater flexibility and security provided, the task of floating treasury bonds in 1985 on the basis of the achievements in past years, can certainly show better results. The leadership at various levels and the comrades responsible for the sales should do their organizational and promotional work well. They must carefully explain to the broad masses about the significance of the bonds and the favorable terms offered so that the people will buy them willingly. The bonds must not be apportioned equally among the people.

Should there be any specific questions in the people's mind, please continue to ask and we will supply the answers at the appropriate time.

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FINANCE AND BANKING

ECONOMIC CONTRIBUTIONS OF INSURANCE INDUSTRY EXAMINED

Shenyang LIAONING RIBAO in Chinese 12 Dec 84 p 2

[Article by Wang Xianzhang [3769 2009 4545]: "Develop Insurance Industry To Serve Economic Reform"]

[Text] After a suspension of over 20 years, the insurance industry in Ningxia has been rapidly revived and developed since the 3d Plenary Session of the 11th Party Central Committee. As of today, insurance institutions have been set up in 13 cities and 43 counties and there are more than 1,000 insurance agencies in rural areas and townships. Formerly limited to the insuring of enterprise property in a single city, these insurance institutions are now handling more than 70 kinds of insurance, both domestic and foreign. Their business has been expanded from property insurance to life insurance, from cities to rural areas, and from within the boundaries of China to outside. The insurance industry has now penetrated into every area of the national economy, down to the daily life of people in rural areas. For the province as a whole, a total of 40 billion yuan worth of state, collective and individual properties is now insured. Over 200,000 people have taken out life and old age insurance policies. Moreover, the industry has netted 24,920,000 million dollars in foreign exchange for the state. Nobody predicted its fast growth and enormous impact, but they certainly point up to the tremendous vitality of the industry and prove that its development conforms to objective economic principles.

Meeting Reform Needs and Promoting Commodity Economy

Economic structural reform is now taking hold in our cities. As enterprises become more autonomous, they shoulder a corresponding increase in economic liability, which explains why they have taken to insurance eagerly and sought economic protection. For the past few years, a total of 38 million yuan worth of insured property suffered damage due to natural disasters and accidents. Insurance companies promptly paid out 103.5 million yuan in indemnities, thus enabling the affected enterprises to resume production quickly. After Xiuyan County was hit by floods in 1982, insurance companies paid enterprises and residents in the county town who were policyholders more than 20 times the annual premiums they collected from the county town. The insurance industry played a special role in the post-disaster resumption of production and stabilization of people's livelihood in the county.

The economic compensation offered by insurance companies not only affords economic protection for the policyholder but also safeguards society's legitimate public rights. From January through October 1984 alone, insurance companies paid out 12.44 million yuan to cover economic damages caused by insured motor vehicles involved in traffic accidents. Of this amount, 5.54 million yuan went to the victims.

#### An Effective Guardian of the Achievements of Rural Reform

The rural economy in our province has undergone historic changes in recent years. To buttress the development of the rural commodity economy, insurance companies have continuously been launching new kinds of insurance and expanded the scope of their services. Apart from actively developing rural enterprise insurance, automobile insurance and family property insurance, insurance companies are energetically experimenting with aquaculture insurance and farming insurance. A total of 3 billion yuan worth of rural property is now covered. Insurance offers a safety net to producers and business operators, emboldening them to adopt new scientific techniques in developing the commodity economy. One imported new technology is the use of plastic film as a cover for cotton fields, which has proven positive effects on cotton yields. But cotton growers were worried about the damages that exposure to hail could do to the plastic film. At the right moment, however, we introduced hail insurance for plastic film, thereby removing the "riskiness" which made cotton growers hesitate at the beginning. With this kind of insurance, insurance companies pay out several times more in indemnities than the premiums they collect, but the social and economic results are significant.

#### Providing Economic Protection for New Management System

As we put into practice various responsibility systems, "eating from the big rice pot" will be a thing of the past. This development brings into sharp focus the problem of "old age support" among the staff and workers of collective enterprises and individuals who engage in industry and commerce. If we fail to solve this problem satisfactorily, the consolidation and development of the collective and individual economies will be undermined. With this in mind, localities across the province have been offering, on a trial basis, old age pension insurance for the staff and workers of collective enterprises in cities and towns. Already 188,000 people have thus been covered and some retired workers have even begun collecting pensions from their insurance companies.

#### Promoting External Economic Development and Increasing the State's Non-Commodity Foreign Exchange Earnings

Insurance plays a crucial part in ensuring the smooth conduct of international trade and other economic transactions. To economize on foreign exchange expenses and increase foreign exchange income, insurance companies everywhere are going all out to capture a share of the insurance business involving foreign transactions. Among the province's 13 cities, all ports have offered imports and exports transport insurance and ocean-going shipping insurance.

In addition, various cities now offer over 30 kinds of insurance involving foreign operations, including construction and engineering, machinery damage, public liability, investments and contract.

#### Stepping Up Disaster-Prevention Activities To Minimize Social Losses

Insurance companies regard insured properties as their own and take an active part in risk management. In conjunction with relevant departments, they frequently launch publicity campaigns on disaster and loss prevention, conduct inspections and take a broad range of preventive measures to eliminate hidden risks and improve safety. One enterprise failed to take proper fire prevention measures. Despite repeated admonitions from the insurance company that they correct the situation, the enterprise resorted to delaying tactics, citing objective factors. In accordance with relevant provisions in the "Law on Economic Contracts", the insurance company terminated insurance liability until the company finally acted to eliminate the fire hazard. In this way, the company effectively promoted disaster prevention work. To increase society's fire and disaster prevention capability, insurance companies have subsidized the purchase of over 10 fire engines by public security, fire prevention and transport departments in various localities to the tune of 3 million yuan. They have also given enterprises across the province which had an unblemished safety record or have not incurred any damages more than 10 million yuan in safety awards. The contribution made by this massive sum of money to improving enterprises' disaster prevention capability should not be underestimated.

Insurance represents a sound economic means of managing the economy. It supports and protects the development of social productive forces and has a bright future. Although the insurance industry is flourishing in our province, we have not yet made full use of it. We must seriously study, publicize and implement the spirit of relevant Central Committee documents in order to further liberate our thinking, reform the management system and speed up the construction of the insurance enterprise. We should broaden the scope of the business continuously and improve its quality and economic results so that it can serve economic reform better and make new contributions to the vitalization of Ningxia and the realization of the four modernizations.

12581

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FINANCE AND BANKING

PROBLEMS OF PRICE REFORM DISCUSSED

Beijing JIAGE LILUN YU SHIJIAN [PRICE THEORY AND PRACTICE] in Chinese No 6,  
20 Nov 84 pp 2-3

[Article by Dai Yuanchen [2071 0954 2525]: "Let Price Return to Exchange"]

[Text] The requirements of price reform can be summed up in three phrases:  
the sense of urgency, the return to exchange, and the elimination of  
abnormal deviations.

First, the sense of urgency in price reform. It does not mean that we had  
no sense of urgency in the past several years. Irrational prices and the  
need to reform them existed long ago. At that time, however, the reform  
of the economic structure was just beginning and then proceeding slowly,  
while the practice of "eating from the same pot" still remained. Many  
problems were concealed and the enterprises could still manage to carry on  
while the effects of irrational prices were not yet keenly felt. Now that  
the reform is proceeding at a higher speed, the situation is different.  
The prices, either too high or too low, affect the personal interests of  
the buyers and the sellers alike, and can speak louder than the instructions  
from the higher authorities. Rational prices play a positive role in  
production and circulation, while irrational prices produce adverse effects  
and may lead to blind development or blind contraction which affects the  
conservation and substitution of resources as well as the progress and  
success of the reform of the economic structure. On the whole, this reform  
must be carried out.

We must also note that in the second step of substituting tax payment for  
profit delivery, the tax rates and profit margins for different products  
have been readjusted, and this readjustment has, to a certain extent,  
alleviated the contradictions created by the irrational prices. However,  
irrational prices still exist. The substitution of tax payment for profit  
delivery can only readjust the profits of the producers, while the problems  
of circulation channels being choked up by the inverted ratio of state  
purchasing and retail prices, and of the abnormal effects of prices  
supply and demand still cannot be solved. This shows that the alleviation  
by the substitution of tax payment for profit delivery can only be on a  
limited scale and that the urgent need for price reform still exists. Price  
provides the key to the streamlining of economy. When the enterprises

operate independently and assume the responsibility for their own profits and losses, price plays an even bigger role and the effect of price, either rational or irrational, is even more obvious. If we want to readjust our economic structure rationally, to promote competition and to improve the economic results, we must quickly regulate the prices.

Second, price reform must be oriented to a return to exchange. In reforming their economic structure, all socialist countries, almost without exception, have to reform their price system. Their action gives us much food for thought. Price is originally the outcome of exchange, since there must be buying and selling, or exchange, before there can be any price. On the other hand, rational or irrational prices affect the smooth operation of exchange. However, a common malady among these countries in the past is that they forgot the relationship between prices and exchange. They seemed to think that since the problem of value realization did not exist in socialist economy, price, which only served the purpose of accounting, could be set either high or low. Price stability, which originally means the basic stability of the general price level and the basic stability of the purchasing power of money, was misinterpreted as the immutability of commodity prices. The prices were consequently frozen and even plainly irrational prices were not readjusted in time. They were simply "solidified" or "ossified," and as time went on, more and more contradictions were accumulated. That is why in reforming the economic structure, we must, without exception, reform the price system as well.

From this, we can see that irrational prices can come from the price administration system. If prices are still controlled with the same methods that are divorced from exchange as they were before, then, despite our efforts to readjust and reform them, irrational prices may reappear after some time, calling for another reform. The old method is like some malady which can neither be cured nor alleviated and can make the work of price readjustment really difficult. Precisely for this reason, I feel that in trying to regulate the prices, we should expand the field of our vision and look at the system of price administration and let price return to exchange.

Originally, market competition was mainly price competition and market mechanism was mainly price mechanism. Since prices could not be flexibly readjusted in the past, we were forced to use mandatory plan indices in arranging the enterprises' production, to use rationing instead of exchange or buying and selling, and to use administrative means instead of economic means of readjustment, whenever the prices were irrational. As a result, competition was stifled, market mechanism was emasculated, and economic results deteriorated. It would be absurd if we regarded this method as it was an objective necessity and defended it as the superiority of the socialist economy.

It should be pointed out that letting price return to exchange does not mean the abolition of planned prices. The solidification and ossification of prices are not necessarily the special characteristics of planned prices, but rather the reflection of the old economic structure in the prices. Along with the reform of the economic structure, price

administration must also be duly reformed. Both fixed and floating prices are planned prices in different forms. In the future, not only floating prices are flexible; fixed prices should also be constantly readjusted according to the conditions of market and exchange. Only thus can prices meet the requirements of economic development and be gradually regularized. According to the 10 articles concerning the expansion of decision making power for the enterprises worked out by the State Council, above-plan products can be sold at floating prices when the enterprise has completed its planned task. Thus the planned prices begin to become flexible and come a step closer to exchange. In the future, although the common problem of different prices for the same product may lead to new contradictions, this policy has nevertheless removed one restriction on price flexibility and paved the way for a real price regularization. In this sense, letting prices return to exchange is the core of price reform.

Third, the reform of the price system should focus on the elimination of abnormal deviations. Speaking of reform in the price system, people are apt to treat the deviation from value as an indication of irrational prices and to regard the setting of prices on the basis of a certain ideal average profit rate as the basic requirement in the reform. In fact, the correspondence of a price to its value is only a theoretical abstraction. The prices of low accumulation commodities are lower than their value. Such deviations can happen at any time. If the deviation is consistent with the law of value, it is a normal deviation. It plays a positive role in the economy and requires no readjustment. The price is irrational and requires readjustment only when its deviation from value is against the law of value, in which case, a surplus of supply over demand exists with high prices, and a surplus of demand over supply exists with low prices, the dislocation between production and demand would become intensified, and an abnormal deviation would be formed.

The readjustment of prices according to a certain ideal average profit rate, either profit rate on funds, profit rate on wages, or a composite profit rate on both funds and wages, sounds easy and simple, since there are now electronic computers and computing models which can quickly work out the price readjustment as long as there is input information. In practice, however, there are many difficulties. The reason is that whatever average rate used can only show certain trend of price change, but the actual program is too complex for a computer to work out. If this method is adopted, it is quite possible that what should be readjusted cannot be readjusted and what should not be readjusted would be readjusted. However, an average rate shows no difference, no focal point, and no tendency, and cannot play the leading role in economic activities. In the future, we still need to use the price lever and the market mechanism, and the deviation in price from value cannot be ruled out. "Without deviation of price from value, there can be no price policy." There should be nothing wrong this notion at all. In price adjustment, we must guard against the negation of reasonable deviations.

People often picture price reform as something very difficult. In fact, if the reform focuses on the elimination of abnormal deviations, the scope and extent of price readjustment will be greatly reduced along with the

reduction of the difficulties involved. If the system of price administration is flexible so that price can return to exchange and market mechanism is used to readjust the price in a rational way, then the price changes--becoming too high or too low--would be caused mainly by abnormal deviations. People are generally well aware of these prices, either too high or too low. As long as the relationship between prices and wages is well handled and compensatory measures are taken in meeting these changes, the reform of the price system will not be such a herculean task as people may think, and it is entirely possible for its speed to be increased.

9411

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FINANCE AND BANKING

POSSIBLE REAPPEARANCE OF SHANGHAI STOCK MARKET DISCUSSED

Guangzhou YANGCHENG WANBAO in Chinese 7 Dec 84 p 2

[Article by correspondent Liang Maoyi [2733 5399 5669] and special correspondent Du Liemin [2629 0441 3046]: "Will Shanghai Open Its Stock Market?"]

[Text] Recently, something which has disappeared from our country for 35 years--the stock market--is again attracting public attention. In Shanghai, many economic theorists and economic workers are studying afresh the possibility of opening a stock market under socialist conditions. A signed article entitled "Shanghai Should Boldly Open a Stock Market" carried in SHIJIE JINGJI DAOBAO on 12 November has produced a strong repercussion. Shanghai Finance Association and SHIJIE JINGJI DAOBAO have separately held meetings to study this matter while some economists are drafting their views to be submitted to the state's financial authorities for reference. TA KUNG PAO, WEN HUI PAO and SHIN WAN PAO of Hong Kong have also carried reports and commentaries on the question of opening a stock market, and the question is now under deliberation in mainland China.

This news has aroused our correspondents' interest and prompted them to interview Li Lixia [2621 4539 0204], vice president of Shanghai Finance Association. He is already 73, having been engaged in Shanghai's financial work for several decades. Now, he is at home compiling the views on the opening of a stock market. He told the correspondents that stocks are being issued in many parts of the country to raise funds, and that it would be a good idea to open a new channel in addition to the banks for the same purpose. At present, these stocks cannot be bought or sold since there is no stock market in the country. These stocks, which cannot be bought or sold, have the characteristics of a partnership enterprise. This is traditionally called "small-capital business" and it is very difficult to expand the scope of fund raising this way. The reason is that partnership in an enterprises is only the partnership of people, and its stocks cannot be oriented to the community. On the other hand, in the transaction of stocks, the relationship among people does not exist, and there is only the relationship of money. If stocks are transacted through a market, the funds will not be "tied up." They can be bought today and sold tomorrow, and their prices will fluctuate according to supply and demand as well as the efficient or inefficient operation of the enterprise. In this way, the



use of funds in the society will be more flexible. Stock transactions will be helpful to the circulation of funds and to the society's economic vitality. It seems to show that the scope of fund raising can be expanded only through stock markets.

How can the element of speculation in stock transactions be avoided? Li Lixia said: We can adopt suitable measures to restrict it. Before the liberation, there were two types of stock transactions: One of them is cash transaction, called "spot transaction," and the other, called "future transaction," required only a 10 percent deposit to be followed by full payment upon delivery on the next day or several days later. Future transactions are empty transactions, or 90 percent empty transactions, and this is where the element of speculation came in. In the stock market we have in mind, "future transactions" will be prohibited, and only cash transaction are allowed. This measure will restrict the element of speculation on the stock markets. We can dispense with these commission agents and start with "over-the counter transactions" through the bank or the entrusted agency. This is another way to reduce the element of speculation. Of course, instead of being concentrated in the market, over-the-counter transactions have to be spread out in various banks, and information cannot be so readily available. Therefore, the transactions are somewhat restricted. We can have a trial period first.

How should we view the stock transactions? Tang Xiongjun [0781 7160 0193], research worker of Shanghai World Economy Research Institute, offered two views: First, the stocks have floating prices. If the enterprise is well run, the price will rise; if it is poorly run, the price will fall. Second, through the rise and fall of stock prices, the enterprises will be supervised by the society and induced to improve its operation.

Are conditions ripe for Shanghai to open its stock market? The correspondents visited Chen Shanzheng [7115 0810 2398], who wrote "History of the Stock Market's Development in Shanghai" before the liberation. He said: How to draw money from the four seas to accelerate Shanghai's construction is a task of utmost concern to the economic circle in Shanghai. Shanghai is the economic center of the country and conditions should be created for its stocks to be issued throughout the country so that more funds can be raised. It is also a major foreign trade port. Before the liberation, there were "foreign stocks" (stocks bought by foreigners) on the stock market. Now, we can also import foreign funds through the channel of stock transactions. Furthermore, since Shanghai had its stock market previously, experts in this field are available. That is why conditions are fairly ripe for Shanghai to open its stock market.

Many people in the economic circle of Shanghai believe that there are more advantages than disadvantages for Shanghai to open its stock market, and suggest that a stock market be opened here first.

FINANCE AND BANKING

"WARNING LINE" FOR MONEY SUPPLY DISCUSSED

Beijing JINGJIXUE ZHOUBAO [ECONOMICS WEEKLY] in Chinese, No 50, 10 Dec 84 p 5

[Article by Wei Yi [7279 2496]: "What Is the Range of 'Warning Line' for Currency in Circulation?"]

[Text] Five years ago, comrade Chen Mu [7115 4476], based on the data of the average ratio of 1:7.4 between the currency in circulation and the total value of retail sales in 26 years from 1953 to 1978, reached a conclusion that the "warning line" for currency in circulation should be 1:8. It means that if the currency in circulation is below the 1:8 ratio, it will go over the "warning line" which indicates that the greater amount of currency in circulation in the market may drive up the commodity prices and even set off the danger of inflation. Some comrades who are skeptical about this have considered it unrealistic while others are of the opinion that it is not applicable at present.

Should we have a "warning line?" I am of the opinion that this question raised by comrade Chen Mu is theoretically correct. Marx's law of currency circulation has expressed it in this formula, that is,  $M = \sum Q \cdot P / V$ , of which  $Q, P$  are variable quantities,  $M$  is also a variable quantity. However, the theory of money in the past very seldom studied  $V$  (velocity of currency circulation). The 1:8 formulation raised by comrade Chen Mu, by appearance, refers to  $M$ 's limit of quantity, but from the standpoint of essence, the substance is the study of the velocity of currency circulation, its numerator is  $\sum Q \cdot P$ , and its denominator is  $M$  quantity from which the coefficient of  $V$  is derived. The question of the "warning line" therefore is interrelated with the velocity of currency circulation.

However, the 1:8 ratio is open to discussion. The amount of currency issued has increased rapidly beginning from 1979 bringing about a very sharp change in this ratio: 1 : 7.8 in 1979; 1 : 6.2 in 1980; 1 : 5.9 in 1981; 1 : 5.8 in 1982; and 1 : 5.3 in 1983. These data showed that they were all below the 1 : 8 "warning line," which should have brought about price rise and inflation. But in reference to the price index and the various general price indexes published by the State Statistics Bureau, 1982 registered a total rise of 17.4 percent over 1978.

Why is it that in spite of the steady increase in the amount of currency in circulation, commodity prices can still maintain basic stability? Aside from the fact that a great part of the commodity prices in our country is planned price which will not change at any time because of the increase in the amount

of currency and that at best the currency will go to savings deposits when suitable things are not purchasable at the time, we have often overlooked the factor of slow velocity of currency circulation. Firstly, because of the way of account settlement has changed today, the velocity of circulation has slowed down. In the past, accounts payable by teams and by households were both settled through transfer; with the implementation of the contrast system, accounts payable and to be settled by households are done in cash. Nationally speaking, the scope of use of cash has broadened and the velocity of currency circulation has slowed down. Secondly, the rural economy has developed steadily since the party implemented the rural policy and the number of specialized households and contract households has grown continually. It is estimated that 60 percent of the currency is in the rural areas and the amount of cash in the hands of each peasant, according to a preliminary estimate, averages about 30 yuan and it is not at all surprising that some specialized households have several thousand yuan of cash on hand. One of the characteristics of peasants is that they are afraid of exposing their wealth. As a result, this portion of cash is actually settled down like sediment thereby slowing down the velocity of currency circulation. Thirdly, there are approximately 150,000 individual households throughout the country at present (not including the unconfirmed ones) and the volume of transactions in the rural fairs throughout the country amounted to more than 30 billion yuan; this portion of currency within the scope of distribution is not listed statistically in the total value of retail sales. This factor has naturally slowed down the velocity of currency circulation that can be taken into consideration statistically. On the basis of all this, I am of the opinion that due to the changes in actual situation and the reduced velocity of currency circulation, the question of the "warning line" should be set at a 1 : 6 ratio.

12662

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## FINANCE AND BANKING

### FINANCE MINISTRY'S REGULATIONS ON SETTLING ACCOUNTS

Beijing CAIWU YU KUAIJI [FINANCE AND ACCOUNTING] in Chinese No 11, 20 Nov 84  
pp 17-20

[Article: Finance Ministry's "Regulations for Reviewing Year End Accounts of State-Run Enterprises"]

[Text] In order to do a good job at editing [4882 1399] the year end final accounts of state-run industrial enterprises in 1984, on the basis of the original regulations from 1983, and based on "Methods for State-Run Enterprises to Carry Out the Second Step of the Substitution of Tax Payment for Profit Delivery on a Trial Basis" and Cost Management Regulations for State-Run Enterprises" and other relevant regulations that have been approved by the State Council, the Ministry of Finance drew up "Regulations for Reviewing the Year End Accounts of State-Run Industrial Enterprises in 1984" and "Accounting Chart for the Basic Depreciation Funds that State-Run Enterprises Must Turn Over to the Central Government in 1984." The Ministry of Finance requires that all departments and regions quickly deploy all their subordinate enterprises to implement these regulations. The entire text follows:

In order to complete the work of reviewing the year end accounts of state-run industrial enterprises in 1984, we must use the following regulations in particular:

First, we must strengthen the leadership of work in reviewing final accounts. The year end accounts of state-run industrial enterprises are a comprehensive reflection of all the economic activity of an enterprise, are an integral part of the state's final accounts and are also an important basis for drawing up economic policies. Competently reviewing the year end accounts of enterprises and correctly reflecting the circumstances for implementing the substitution of tax payment for profit delivery and the problems that exist in the management results of enterprises are extremely important for promoting enterprises to consolidate and improve their management and administration, for raising the quality of enterprises and for enhancing economic results. Thus, the responsible departments of enterprises and financial departments at all levels must strengthen leadership and earnestly pay attention to work in reviewing year end accounts. They must place this work on the agenda of the day, strictly abide by all of the state's financial and economic policies and the regulations of auditing systems, and they must earnestly complete the task of reviewing final accounts. Responsible financial departments and tax

departments and responsible departments of enterprises and banks must be closely coordinated at all levels and give full play to the roles of tax specialists, financial personnel stationed at factories and the vast number of financial and accounting personnel. The responsible departments of enterprises and tax departments at all levels must strictly inspect the final accounts of enterprises, discover the problems, quickly solve them so as to ensure the quality of the final accounts and promptly report the results to higher authorities.

Second, we must pay attention to doing a good job at checking property at the end of the year and at auditing accounts. Before the end of the year, all enterprises (including enterprises that have closed down or suspended operation) must organize a certain amount of their resources, arrange a certain amount of their time and carry out a comprehensive inspection of all of their fixed assets, floating assets and special assets. We must especially pay attention to carrying out an inspection of large amounts of raw and processed materials and products for which accounts often do not correspond to reality. Property and materials outside of accounts must all be entered in the accounts, accounts must correspond to reality, accounts must correspond to charts and the accounts must correspond to the accounts.

With regard to checking the profits and losses of floating assets, we must ascertain the reasons, and according to the approved limits of authority, and after examining, verifying and approving, we must readjust the cost according to the amount left over after deducting the compensation from the responsible people.

All savings and loans of enterprises must be checked with banks.

All running funds that enterprises receive and pay or temporarily receive and pay must be checked with the relevant units or individuals. All funds that must be recalled must be promptly put in order and recalled; all funds that must be repaid must be promptly repaid. Bad accounts and losses must be verified in writing by the responsible departments, financial organizations, courts or other relevant units of the enterprise in debt, must be investigated by the enterprise's responsible departments and must be entered into the costs after the financial organizations at the same level have verified and cancelled the losses.

Enterprises must as much as possible complete their final annual accounts for problems discovered while checking property and putting accounts into order and must promptly make the adjustments. Responsible departments of enterprises and tax departments at all levels must assist enterprises with this work. The circumstances for investigating the property of enterprises must be explained in the financial circumstances explanation.

Third, we must strictly and earnestly deal with enterprises' property losses. Enterprises that incur losses with fixed assets, liquid assets or special assets must check the totals, find out the reasons and promptly take care of the problem. Losses that need to be cancelled after verification, according to stipulated procedures and limits of authority and after being examined,

verified and approved, should be entered into the final accounts of the year according to the regulations of the accounting system.

Losses from the lowered prices of electronics products and steel products which enterprises put in storage and discarded as useless before the end of 1980 are categorized as floating capital and should be cancelled according to each enterprise's proportion of freely floating capital and bank loans at the end of 1980. Floating capital losses from other problems left over from before the end of 1980 should be cancelled after verification from freely floating capital allocated by the state. Losses created by capital construction, technological measures or other projects must be cancelled after verification of the funds earned in each project and must not reduce the freely floating capital allocated by the state. We must differentiate between different circumstances and individually handle enterprises' losses incurred after 1 January 1981 from cutting the prices of overstocked goods using floating capital. As for losses created by inept management and administration and other subjective problems, besides for the compensation from the responsible people, the rest of the responsibility for these losses must be assumed by enterprises from what is leftover after their taxes. Banks must assume responsibility for economic losses created by unsuitable bank loans. Industrial enterprises should list losses created by objective factors as production costs, and materials enterprises and supply and marketing enterprises should list these losses as expenditures outside of business. Industrial enterprises that have already listed these losses as expenditures outside of business before "Regulations for the Cost Management of State-Run Enterprises Regulations" was issued need not make a readjustment.

Any discovery of graft and embezzlement must be dealt with seriously, and the property and capital taken away through graft and embezzlement must be recovered. Losses created by grave bureaucracy must also be strictly and seriously dealt with.

Fourth, we must earnestly check the product costs of enterprises. Enterprises must resolutely implement the state's "Cost Management Regulations for State-Run Enterprises" as well as its detailed rules and regulations. While auditing the year end accounts, enterprises must check product quality, consumption of raw and processed materials, wages and expenses. We must correctly calculate the cost of every type of product, end product, zaichanpin [0961 3934 0756], and self-produced semi-finished products as well as the product sales factory cost. We must strictly forbid indiscriminate price squeezing and taking a share, and none of this should be listed as an expenditure in the cost of a product and must be eliminated from the cost.

The materials consumed during production must be calculated according to their actual costs, and if enterprises that use planned pricing to calculate their costs do not differentiate according to the state's calculations and share the costs of materials, they must make the correction. Projects sharing expenses [1769 2382 6316] must be implemented according to the regulations of an accounting system. When there is a difference between the amount of expenses that the enterprises plan to raise and the actual amount, they must quickly adjust their standard for the anticipated increase.

Costs are usually reduced at the end of the year for expenses that have risen too much, and the extra amount should not be retained. Extra amounts that must be retained because of special circumstances should be explained in accounting report forms and financial manuals, and they will become effective after being inspected and approved by the enterprise's departments. We must strictly forbid the exploitation of shared expenses, anticipating increases and the distribution of materials cost increases and artificial and empty profits and losses.

Fifth, we must correctly calculate enterprises' profits and losses. On the basis of checking sales revenue, sales taxes, sales costs, sales expenses and revenue and non-business expenditures, we must check further into the profits and losses of enterprises.

According to the stipulations of Document 67 issued by the State Council in 1984, the income that enterprises realize from products that they sell themselves and the income from using floating prices and negotiated prices must be considered as the income of enterprises from product sales, and they must pay taxes according to regulations and cannot retain profits beyond what is permitted by the state.

Income from price increases in accord with state regulations (for example, raising prices for railroad and water transport, raising prices for phosphate fertilizer, compound fertilizer, potash fertilizer and urea, raising prices for ammonium nitrate and diesel, etc.) and income from illegally raising prices must be completely handed over to the state's finances in accord with the Ministry of Finance's Notice 136 in Financial Forecast Letter No. 84, and enterprises cannot plan on retaining profits.

Starting 1 October 1984, the income from higher cigarette prices must also be paid in a commodity tax in accord with regulations, and price increase subsidies from tobacco and subsidies from name-brand cigarettes which originally made up the revenue from higher prices must also be cancelled.

All non-business expenditures by enterprises must come under the category of the Ministry of Finance's expenditures, and those enterprises with expenditures that have not been approved by the Ministry of Finance should not establish additional projects, expand the scope of expenditures or raise the criteria for expenditures.

We must strictly inspect sales expenses, and any expenditure that has nothing to do with sales expenses must not be listed as a sales expense. Any enterprise that apportions expenses without authorization in violation of the State Council's regulations must be redressed.

Sixth, we must calculate in strict accordance with state regulations the total amount of taxes that enterprises must pay, and must also figure the income tax, regulatory tax and profits that enterprises must turn over.

When calculating the total amount of taxes that an enterprise must pay, the profits that jointly-run units divide and the subsidized revenue from

mandatory quotas should be added to the profits realized by an enterprise. In accord with state regulations, factors that are deducted from profits are confined to: profits that are distributed to jointly-run units; profits from losses that have been approved and made up from the previous year; capital construction loans and special technical loans which are repaid using newly increased profits after loan projects have been put into production according to workers' welfare funds and bonus funds which are drawn from at the time when loans are repaid, the net profits and losses given to enterprises from products when they administer the "three wastes," and the profits that must be given to enterprises from paying off capital construction loans in advance; the profits that must be given to enterprises according to state regulations from processing and assembling imported materials; and other specially retained profits as stipulated by the State Council and Ministry of Finance. Enterprises should not establish projects that have not been approved by the state.

Enterprises are implementing the second step of the substitution of tax payment for profit delivery in the fourth quarter 1984. In implementing the second step of the substitution of tax payments for profit delivery, enterprises that have to pay more or less taxes because of readjustments in the product tax rate, raised tax rates, business tax rate as well as the new resources tax being levied must correspondingly readjust their total profits for 1984. In calculating the total amount of taxes that must be paid for the entire year based on the total profits after the readjustment, enterprises must calculate the income tax, the adjusted tax and the profits that must be turned over to the state. Profitable enterprises that pay more taxes as a result of the readjusted tax rates and the new taxes being levied can deduct in full the adjusted tax and profits that they must pay, and if this is not enough of a deduction, they can deduct their income tax; enterprises operating at a loss can increase in full the losses that they must make up. In paying fewer taxes, enterprises operating at a profit correspondingly increase the adjusted tax and profits they hand over to the state, and enterprises operating at a loss must correspondingly reduce the losses that they must make up.

In the fourth quarter, because the income from the increased tobacco prices of state-run tobacco enterprises is paid in the form of a commodities tax according to regulations, the enterprises do not then have to hand over their special tobacco profits, and at the same time, profits that are increased or decreased as a result of cancelling subsidies on higher tobacco prices and subsidies on name-brand cigarettes are also handled according to the aforementioned regulations.

With regard to enterprises implementing the method of handing over profits, if the base is fairly low or the changing tax rate does not greatly effect profits, the amount of taxes handed over in the fourth quarter does not adjust the amount of taxes that must be paid in 1984; if the effect is great, the appropriate readjustments can be made after the approval is received from financial and economic departments.

Enterprises using many different loans to carry out construction projects must carry out an inspection at the year end auditing. For example, if we



discover that a project that is being carried out has no production value and will be unable to produce the anticipated economic results after being put into production, we must promptly take measures to remedy this problem and avoid creating even greater losses. Both parties to the loan must assume economic responsibility for projects that do not realize economic results. Enterprises in paying back different special loans must act in strict accordance with state regulations and must pay back the loans from the newly increased profits earned after the loan project is put into production. The total amount of profits from repaying loans and the total amount of the workers' welfare fund and bonus fund which is drawn according to a ratified proportion based on the profits for paying back the loan cannot exceed the newly increased profits that the loan project has earned after going into production. If this amount is exceeded, then the enterprises must make up the difference by drawing from the two funds.

According to the regulations for repaying loans by drawing from the welfare and bonus funds of workers, we must calculate the amount to be drawn from these funds based on one-quarter of the amount repaid during the entire year. At the same time, Regulation 16 in Financial Change Letter No. 83 concerning repaying retained profits must be abolished.

Seventh, the enterprises' profits after income taxes must be paid in light of the responsibility of finance departments at all levels according to the method of the substitution of tax payment for profit delivery, and the progressively increasing proportion, the quota handed in, the fixed proportion or adjusted tax rate calculates the amount handed over, and this cannot arbitrarily be changed.

Eighth, we must strictly control and inspect savings withdrawals. Every savings withdrawal must be approved by a finance department. Losses by enterprises operating at a loss must be strictly inspected according to Regulation 62 issued by the State Council in 1984. We must carry out quota subsidies and control for losses of a policy nature, we will not subsidize losses that are exceeded and will split losses that are reduced. New enterprises that are operating at a loss or newly increased losses of old enterprises operating at a loss should not be allowed to be made up except under special circumstances when approved by the Ministry of Finance, the State Economic Commission and people's government from provinces, autonomous regions and from municipalities directly under the Central Government according to enterprises' subordinate relationships. Any enterprise with management losses that turn the losses into profits within a stipulated period, must check the current year's subsidized losses and continue to use the current year's subsidized losses. Allocations of subsidies for losses will cease for enterprises that are unable to reverse losses.

The losses incurred by profitable enterprises that are already implementing the substitution of tax payment for profit delivery will not be made up. Large and medium-sized enterprises implementing the method of handing over adjusted taxes and a fixed proportion will make up their losses from next year's profits. Enterprises implementing other methods must make up their losses using their special funds.

Other different subsidies and withdrawals of funds must be handled according to the criteria, scope and procedures for examination and approval stipulated by the state.

Ninth, we must square and check the funds allocated to budgets. Enterprises must pay promptly and in full their income tax, adjusted tax, the profits of the budget, fixed assets fees, floating assets fees, depreciation fund, etc. No unit or department should fall behind in payment and misappropriate and cut off funds. According to state regulations, an overdue penalty must be charged to enterprises that are behind in turning over their taxes and profits. Enterprises that evade and resist taxes and cut off profits must be punished according to regulations.

In the first nine months of 1984, the special cigarette profits which had to be paid but were not yet paid to the central government (calculated after deducting the subsidies from raised tobacco prices and subsidies for name-brand cigarettes that had to be subsidized but were not yet subsidized) and the basic depreciation fund which enterprises had to pay to the central government by the end of 1984 (including the previous year) were all paid to the national treasury on the spot according to regulations.

Profits, income tax, adjusted tax, fixed assets fees, floating assets fees and depreciation funds that enterprises have already paid the budget and losses that have been made up and quota subsidies that have already been received must be checked when added in and withdrawn and must be checked with the state treasury and tax departments, and after the enterprises, the state treasury and tax departments sign off, a report must be made of the final accounts. All economic departments of the State Council must collect the bills of subordinate enterprises and report them to the Ministry of Finance.

Financial departments at all levels at the same time as compiling final accounts must settle the accounts for the basic depreciation fund paid to state finances, fill in "Chart for Closing Accounts for the Basic Depreciation Fund that Enterprises Pay to the Central Government," and level by level report the year's accounts to higher authorities.

Tenth, we must do a good job at reviewing the financial situation explanation. The financial situation explanation is a component of the report of the final accounts. All enterprises and the responsible departments and financial departments of enterprises at all levels must edit their financial situation explanations and submit their final account report forms all together.

The main substance of financial situation explanations includes: the situation of the completion of all financial and economic criteria as well as analysis of the previous year's increases and decreases; an analysis of the economic results from the substitution of tax payment for profit delivery (including lowered costs and reversing losses); the taxes paid from profits; the profits retained by enterprises and the use and repayment of all different types of special funds.

The financial situation explanation of responsible departments and financial departments at all levels also explains the reasons why the figures for the

final account from the beginning of the present year are different than the end-of-year figure from the final accounts of the previous year, and these differences include: the number of enterprises collected, the state's fixed and floating assets, all special funds, all special loans, profits that have not been paid, losses that have been made up more, circulation funds that have yet to be paid, etc. The reasons why the budget allocations and the total in the state treasury are reflected differently in final accounts must also be explained one by one in detail.

Financial situation explanations also explain improvements in the auditing work of enterprises over the year, problems that exist and suggestions for improving economic results.

Eleventh, we must complete the work of auditing the final accounts of enterprises. Before drawing up final accounts, enterprises must fully complete all kinds of preparatory work and draw up a final account in strict accordance with these regulations and the regulations of the auditing system. The final account must be examined, signed and stamped by the enterprise leadership, the head accountant and the responsible people of financial departments.

Special tax personnel and financial personnel stationed at factories must urge and help enterprises do a good job at reviewing their final accounts and must carry out a preliminary on-the-spot check. When problems concerning the payment of taxes are found in the preliminary checks of tax departments and a dispute arises between the taxpayers and the tax organization, taxes must first be paid according to the determination of the tax organization, and the matter will later be investigated and reconsidered by a higher tax organization. The higher-level tax organization must make a reply within thirty days of the date of the application. Any other tax problem must promptly be pointed out to the enterprise and both sides should try as hard as possible to reach a consensus. If a consensus is not reached, when profits are being handed over, both sides must attach comments concerning the disputed problem and submit them to higher-level financial departments along with the enterprise's final accounts for examination and approval.

Twelfth, we must employ strict financial and economic discipline. Responsible departments of enterprises at all levels and financial and economic departments must strengthen financial supervision and inspection, discover cases of indiscriminately forcing up costs and indiscriminately entering non-business expenditures, drawing on the retained profits of enterprises, cutting off profits and other behavior that violates financial and economic discipline, and they must strictly deal with this according to the state's relevant regulations.

Materials enterprises, supply and marketing enterprises, communications enterprises, public urban enterprises, etc., can refer to these regulations for auditing their annual accounts.

Each region and department based on these regulations can integrate specific circumstances and draw up detailed rules and regulations.

# Appendix

## Accounting Chart for Basic Depreciation Funds Paid by State-Run Enterprises in 1984 to the Central Government

unit: 1,000 yuan		INDUSTRIAL COMMUNICATIONS		REMARKS
		TOTAL ENTERPRISES	ENTERPRISES	
Line Number	Item			
1. (I)	the total drawn for the year			
2.	1. amount old enterprises draw			
3.	2. amount new enterprises draw			
4. (II)	the amount drawn that does not have to be turned over to depreciation fund.			
5.	1. county-run enterprises			
6.	2. enterprises above the prefectural and city level with less than 1 million yuan in fixed assets.			
7.	3. the amount from approved special cases that are exempt from paying			
8.	4. the amount taken from small third line military factories.			
9.	5. the amount from using depreciation funds to pay back bank loans.			
10. (III)	the amount drawn by calculating the amount the enterprise pays and keeps.			
11. (IV)	the amount that must be turned over to state finances for the year.			
12.	1. the amount old enterprises must pay.			
13.	2. the amount new enterprises must pay.			
14. (V)	the total amount from overdue payments from the previous year (or excessive payments).			
15. (VI)	the amount already paid to the state treasury in the current year.			
16. (VII)	the total from payments that have not yet been paid in the current year (or that have been paid in excess).			

Remarks:

1. The amount drawn during the current year means the amount drawn during the current year by all state-run industrial and communications enterprises.
2. The amount from approved special cases that are exempt from paying means the amount from special cases that have been exempted by the State Council or the Ministry of Finance.
3. The amount from using depreciation funds to pay back bank loans means the total amount to be repaid after deducting the bank loans that county-run enterprises, enterprises above the prefecture and municipal level that have less than 1 million yuan in fixed assets and small military industrial enterprises repay using depreciation funds.
4. The amount that new enterprises must pay indicates enterprises that have been in existence no more than three years from the day they were checked and accepted to go into production and brought this in line with the budget (including large production shops and sub-factories that have been newly built and expanded). Of this, 48 percent of the basic depreciation funds drawn from the fixed assets from domestic investment is paid to the central government; and 54 percent of the basic depreciation funds drawn from importing large construction projects is paid to the central government.
5. The relationships of the line numbers in this chart are as follows:  
line 2 + line 3 = line 1;  $12 + 13 = 11$   
 $1 - 4 = 10$   
 $11 \pm 14 - 15 = 16$   
 $5 + 6 + 7 + 8 + 9 = 4$

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CSO: 4006/292

FINANCE AND BANKING

BRIEFS

TREASURY BONDS--According to statistics of the Ministry of Finance, the task of treasury bonds issuance for 1984 has been overfulfilled by the end of November. The total amount came to 4.114 billion yuan overfulfilling the annual plan by 2.9 percent. Among this: Various units throughout the country purchased 2.02 billion yuan and the urban and rural people purchased 2.094 billion yuan. Beijing ranked best in fulfilling the task by overfulfilling 9.6 percent, Henan province, Tianjin municipality and Jiangxi province came in second. The central enterprises and business units and government organs and groups purchased treasury bonds in the amount of 680 million yuan, overful the annual plan by 19.4 percent. The Ministry of Ordance overfulfilled by 69.8 percent topping all others and directly subordinate organs of the CPC Central Committee overfulfilled by 30 percent. [Text] [Beijing BEIJING RIBAO in Chinese 13 Dec 84, p 1] 12662

CUSHION INFLATIONARY EFFECTS--The Canton Municipal Government paid about 124 million yuan to cushion its two million city dwellers against inflation last year. The vice-chairman of the Office of Canton Suburbs' Foreign Affairs and Overseas Chinese Affairs, Mr Deng Yetian, said the move ensured that people were not hit by rising prices. Food coupons were no longer needed, but prices are rising and the cost of meat has increased by 10 to 20 percent, he said. Because of this the municipal government began measures to "compensate" residents. [From "South China Beat" Column] [Text] [Hong Kong SOUTH CHINA MORNING POST in English 1 Mar 85 p 8 HK]

CSO: 4020/136

ENERGY

ELECTRICAL POWER SUPPLY NEEDS, POTENTIAL SURVEYED

Frankfurt/Main ATOM+STROM in German Nov/Dec 84 pp 166-167

/Article by Walter M. Lehmann: "Supply of Electric Power for The People's Republic of China Needs To Catch Up"/

/Text/ On the occasion of the 10th "Energy" workshop, held under the auspices of the Rheinisch-Westfaelische Elektrizitaetswerk (RWE) /Rhine-Westphalian Electric Power Plant/ in Darmstadt at the beginning of November, experts from France, Belgium, the People's Republic of China, the United States, South Korea, India, Thailand, the USSR, Japan and the Federal Republic of Germany reported on the state of electric energy supply in their countries. Also discussed were economic, technical, and policy matters related to energy.

In the course of this international event, Zhang Zhiping--chief engineer of the Northwest China electric power distribution region within the Ministry of Water Resources and Electric Power--Beijing, discussed the large power distribution networks in China and policies relating to the further expansion of the power supply system. His remarks made it clear that the developing trend toward economic liberalism has contributed significantly to the extensive new tasks which face the management of China's electric power. In this context, the stability of the electric power distribution networks has become a matter of special concern.

Zhang Zhiping first presented some basic information on energy supply within his country according to which the average yearly growth of electric power production between 1949 and 1983 was a little more than 14 percent. The average increase in energy demand is about 10.6 percent and the average increase in the gross industrial and agricultural production about 9.3 percent. The total installed capacity at the end of 1983 was 76,440 megawatt. Hydraulic power generated 31.6 percent and thermal power plants, most of them coal-fired, 68.4 percent.

The total length of Chinese high-voltage lines of at least 220 kv is 35,680 km. Most of these are 220 kv lines. The 500 kv and 330 kv lines account for 1,115 km and 1,086 km respectively. At this time,

China has 22 grid systems of which 13 networks transmit more than 1,000 megawatts. Six of these networks provide regional service and extend over several provinces. For that reason, they are called trans-provincial grid networks; they are also the most important power networks in the People's Republic of China. The installed production capacity of the regional systems constitutes 64 percent of the total production capacity. All 500 and 330 kv lines as well as eighty-nine 220 kv lines are part of these six systems which are extremely important to the electrical industry and to the entire economy.

According to Zhang Zhiping, the northeastern electrical system, with an installed capacity of 10.1 gigawatts, has one 500 kv line (as one system) and several 200 kv lines as well as a transformer system. The north China network, which also includes the capital of Beijing, also has a 500 kv line and several 220 kv lines at its disposal. All high-voltage lines of the east China electrical system are 220 kv. A relatively large number of 500 kv lines are planned for the central electrical system; at present, two lines are switched to 200 kv. The total installed capacity of this network is 0.6 gigawatt, furnished by one large hydroelectric and one thermal power plant. The north-western electrical system has one 330 kv and 220 kv lines at its disposal. It is tied to the southwestern system through a long-distance 220 kv line which was only installed in 1984. The largest hydroelectric power plant currently at China's disposal also belongs to this region. It is characteristic of the Chinese grid system that many lines over long distances are constructed as lines with one system.

Zhang Zhiping mentioned that plans for the further expansion of the electric power supply are based on the exploitation of water power for the time being. In this context, he referred to a published statement of the deputy prime minister which asked that the potential water power of 676 gigawatts be utilized and that better use of these reserves be given absolute priority. At this time only 24 gigawatts are generated through hydroelectric power. The significant water power reserves are located on the upper and central reaches of the Yangtse River and on other large rivers. The large rivers contain two-thirds of the potential water power which is the reason why efforts will be concentrated there first. These appear to be long-range plans which deal with the construction over the "next 20 years" of some large hydroelectric power plants. The next projects contemplated are a power plant with a capacity of 1,700 megawatts, three additional power plants with capacities from 1,300 to 20,000 megawatts as well as additional power plants with varying capacities.

At this time, thermal power plants generate a large share of the electric power supply, 78 percent of them are coal-fired installations. In this area, China wants to concentrate on the construction of large



installations fired with fossil fuels. Areas in which the mined coal can be channeled directly into the production of electricity have priority. Three or four larger plants are to be built in Datong with a total installed capacity of about 10,000 megawatts. Other power plants are planned in various other locations whose combined total capacity will exceed 1,000 megawatts.

Zhang Zhiping also mentioned that China has developing nuclear power plants. However, nuclear power does not have priority in view of the extensive supply of coal. The coastal provinces are primarily considered for the construction of nuclear power plants. The "Chinese Government and the Chinese people" know that nuclear power plants are a secure and useful source of energy and, therefore, no one is opposed to using them. But China does not have enough capital to purchase or construct such installations. For that reason only a few nuclear power plants are being considered. There are plans to build a large nuclear power plant, based on the water pressure model, first in the province of Kwantung with a capacity of 1,800 megawatt. Nuclear power plants are to be built later in the eastern and northeastern provinces. Since these regions will experience strong development in the future, a high demand of energy can be expected.

An important aspect of Chinese energy policy is expressed by the demand to expedite the expansion of the power grids. In this connection, Zhang Zhiping noted that the length of the high-voltage lines was not quite adequate for the production capacity and that the ratio between the two would have to be improved. This is planned for the 1990's. In addition, because of the unequal distribution of the large centers of consumption, the unequal production capacities of the country are to be appropriately corrected. At this time, transmission occurs more or less from the west to the east.

Of the total water power potential which--as mentioned above--amounts to 676 gigawatts, 70 percent are in the southwestern region, 22 percent in the northwestern and central regions of China. Only a few percent are located in the coastal provinces. Of the coal reserves, which are estimated at 650 gigatons, 60 percent are in the province of Shansi, in Datong and in Inner Mongolia; an additional 24 percent are in the northwestern region. This means that energy resources are primarily concentrated in the western part of the country, while the coastal regions consume 70 percent of the energy supply. In this connection, the speaker once again commented on the stability of the Chinese networks, which are critical for the further expansion of electric energy supply, and also to the ratio between the length of the transmission lines and power generated.

Table 1: International Comparisons

Country	U.S.	USSR	Japan	FRG	GB	China	Brazil
Year	1977	1977	1977	1977	1976	1980	1982
A 103 km <sup>2</sup>	9,363	22,400	377	248	244	9,600	8,572
Py mw	576,050	237,800	89,030	83,702	78,957	60,500	38,900
Py/A km <sup>2</sup>	61.5	10.6	236.2	337.5	323.6	6.3	4.6
Le km	324,700	186,700	29,849	33,803	27,720	30,540	82,952
Le/Py km/mw	0.56	0.78	0.33	0.40	0.55	0.50	2.13

In terms of size, China is one of the largest countries in the world. But the ratio between its productive capacity to area is much smaller than in most industrial countries, despite its high total capacity of generating power. It is apparent from Table 1 that the ratio  $P_y/A$  is very high for Japan and the West-european countries but much smaller for the developing countries of China and Brazil. The ratio  $P_y/A$  is therefore an indication that great distances have to be bridged in the transmission of electric energy.

Zhang Zhiping illustrated this point by using the average length in km of the 330 and 500 kv lines in China as an example and comparing it with the United States:

	330 kv	500 kv	Year
China	136	262	1983
United States	108	108	1976

Table 1 also shows the length of the lines in kilometers for the specific voltage levels for the countries listed.  $L_e$  stands for the corresponding total length of the 220 kv lines with equal commitment of capital. The following table shows the ratio of capital invested for each kilometer of line for the specified voltage levels to the capital expenditure for 220 kv lines:

Voltage level	220 kv	275 kv	330 kv	400 kv	500 kv	765 kv
Ratio	1	1.3	1.6	2.4	3.4	7.2

It can also be seen from Table 1 that  $L_e/P_y$ , or the corresponding length of high-voltage lines for each megawatt of production capacity, moves at about the same order of magnitude for China as in the industrial countries listed. However,  $P_y/A$  is much smaller for China than for the Western countries. Chinese distribution networks are thereby shown to have had a relatively weak expansion with rather broad criteria for operational reliability. This is reflected by the fact that, for the time being, all 330 and 500 kv lines in China are lines with one system and that the very large northeastern power distribution system ( $P_y = 9.34$  gw in 1983) as well as the eastern network ( $P_y = 10.63$  gw in 1983) are still being operated at the voltage level of 220 kv which is too low.

Since the transmission distances are extraordinarily long in the People's Republic of China, the network systems have a lower capacity than those in Western Europe or in the United States. For that reason the Ministry of Water Resources and Electric Power has issued corresponding criteria for stabilization which are based on three

concepts: 1) to maintain stability without loss of output during brief ground contact for one phase and through emergency lines during longer periods of ground contact for both phases; 2) measures for maintaining stability in cases of two- and three-phased malfunctions; 3) to avoid loss of power in the entire network, the output should be cut back or a certain loss of output should be accepted. These criteria were adopted to avoid excessively large investments for the construction of the lines. Research and development efforts are also underway in this area.

China is currently building additional high-voltage lines. In the fall of 1984 500 kv lines were installed over a distance of 270 km and construction was started for 5,600 additional kilometers. Planning for power supply provides that individual power plants will be connected to Shanghai 500 kv lines. Additional 500 kv lines are to follow. For the northwest region a connection to the electric power system through 500 kv lines, and lines with even higher voltages, are to be established. Also contemplated are appropriate safety systems and automated systems as part of the list of measures for stabilizing the six large distribution networks. A "stability control system" has already been created for the northwestern electric power system which responds to  $\Delta$  converter voltage changes, recognizes changes in frequency and indicates when the system has reached its stability limits or when there is a load reduction. Malfunctions are thereby discovered before they develop into serious operational problems.

The discussion which followed Zhang Zhiping's discourse brought out a number of additional facts which will be presented here in the order of the questions: Electric power is available in most Chinese households but not in the remote regions such as Tibet or Inner Mongolia. A national interlocking electric system is being planned which is to be completed in the 1990's. According to plan, the installed capacity will be about 200 gigawatt by the turn of the century which is four times as high as in 1980. The planned nuclear power plant will be built by the People's Republic of China with technical and financial support of developed countries. Power loss through the lines is a little more than eight percent of the total output. The quality of supply still leaves something to be desired; it should be improved, however, despite the difficulties connected therewith. The frequency is  $50 \text{ Hz} \pm 2 \text{ Hz}$  and it is relatively easy to keep it constant. There are differences of opinion about proposals to install lines in excess of 500 kv with alternating current; many experts believe that 750 and 1,000 kv lines will be built in the future even though the required technology is very complicated. Because of the differences in opinion, no decisions have been made as yet. Use of 500 kv alternating current lines will continue for "a long time" but direct current lines are planned for lines which will connect individual systems. Coal-fired power plants will

continue to generate the major share of electric power, even in the future, because the capital investment per unit of installed capacity is considerably lower than for hydroelectric and nuclear power plants. The pollution problem has not been solved so far. In this area China still needs to catch up. China is able to build generator systems with a total capacity of 300 megawatts. Certain technical components for larger systems will be imported from industrial countries. For instance, many many power transmission systems come from Western Europe, the United States or Canada. China is planning to build systems of 500 kv or more herself; however, at this time the demand is far greater than the ability to produce.

Both the speech and the ensuing discussion attempted to clarify the complicated subject of China's electric energy supply. It was appreciated that no attempt was made here, either in the speech or the ensuing discussion, to ignore weaknesses of Chinese energy supply or to leave questions unanswered. This is one more indication of change in the People's Republic of China which has exhibited a carefully handled societal liberalization and an opening to the West.

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CSO: 3620/235

## MINERAL RESOURCES

### BRIEFS

HUBEI SILVER MINING--Recently, the Hubei Metallurgical Industrial General Corporation has reached an agreement with the China Nonferrous Industrial General Corporation and Yunyang county to jointly construct the Hubei silver mine (the Yindonggou silver and gold mine in Zhushan county). Hubei silver mine is one of the three largest silver mines in China at present which was discovered in the course of prospecting. This mine has a large mineral deposit with high-grade ores. It is easy to extract and dress, the technical process is simple and the economic results are good. It is estimated that upon completion in 1987, this mine can extract and dress 400 tons of ores daily and produce 24 tons of silver and 7,000 liang of gold annually. [Text] [Wuhan HUBEI RIBAO in Chinese 23 Dec 84 p 1] 12662

ZINC MINE BEING DEVELOPED--Lanzhou, 6 March (XINHUA)--China's largest lead and zinc mine in Gansu Province is now under construction. The infrastructure has already been completed and an ore-dressing factory is in the last stages of construction. The opencast Changba lead and zinc mine, located in the Longnan mountain area, contains mainly zinc deposits. It has verified reserves of more than 45 million tons. The mine is under the joint management of the Gansu provincial government and the China National Nonferrous Metals Industry Corporation. The Northwest China Lead and Zinc Smelting Works in Lanzhou, capital of Gansu Province, is now in the planning stage. Upon completion, it will have an annual production capacity of 150,000 tons using the lead and zinc from the Changba mine. [Text] [OW060953 Beijing XINHUA in English 0911 GMT 6 Mar 85]

CSO: 4020/136

## INDUSTRY

### ENERGY-SAVING PRODUCTS IN PRC MACHINE INDUSTRY

Beijing JINGJI DIAOCHA [ECONOMIC SURVEY] in Chinese No 2, Jan 83 pp 34-42

[Article by Yan Qiushi [0917 3061 1395]: "Investigation of the Production of Energy-Saving Products in the Machine Industry"]

[Text] The machine industry is the equipping branch of the national economy, also the sector that provides equipment for and renders services to the development of energy sources and energy conservation. The machine industry provides equipment for all the various stages in the development of coal, petroleum, electric power and of new sources of energy (their opening up, processing, handling, transportation, storage, etc.). The products of the machine industry have, therefore, a direct impact on the available variety of products, the capacity for their development and their quality. When in use, all kinds of machinery and electrical products consume energy to varying degrees over long periods of time. The efficiency of these products and the degree to which they consume energy has an important bearing on whether the various branches of the national economy consume large quantities of energy or whether they are economical in their consumption of energy. Due to the fact that energy is being consumed in all manufacturing processes, there is also a great potential for energy conservation here in the machine industry itself.

In the following we shall principally present suggestions for the renovation of old products of the machine industry, particularly in so far as relevant to energy conservation (including renovation of energy-saving equipment for social uses and for transportation) and focus on the development of new products of relevance to energy conservation.

#### I. The Present Situation and Its Shortcomings

##### A. General Appraisal

In the 30-odd years of construction, the machine industry has provided the various sectors of our national economy with large quantities of technical equipment. Of all equipment now being used throughout the country, 74 percent of the present machinery in all power generation installations, 80 percent of all motor vehicles and 94 percent of our present machine tools were all manufactured in China. As to large-scale construction projects,

for instance the almost 20,000 items of equipment at the Automobile Factory No 2, 99 percent are manufactured domestically, and some of these items of equipment are of a very high quality, as, for instance, a cylindrical drawbench and an automatic crankshaft balancing line, items that have been highly praised by foreign specialists. Domestic manufacturers have also provided all the equipment at the Panzhihua Joint Steel Enterprise; tested in 5 years of production, this equipment has performed very well.

However, generally speaking, compared with the advanced equipment manufactured abroad, domestically produced machinery is about 20 years behind in its technological level. According to 1979 statistics, out of the 26,000 items of products that can be manufactured within the system of enterprises under the First Ministry of Machine-Building, 60 percent are of the technological level of the 1950's, 35 percent of the level of the 1960's and only 5 percent are of the level of the 1970's. Although the industries under the First Ministry of Machine-Building have built up a certain capacity, the technological level of their products and the level of manufacturing techniques as well as their management organization are all still inadequate to meet the needs of the four modernizations.

#### B. Specific Shortcomings in the Energy Consumption of Machines

To assess the advanced or backward nature of equipment provided by the machine industry, we must measure--focusing here on the industries under the First Ministry of Machine-Building--whether the performance, available varieties and quantities are sufficient to meet all needs, whether the items are well coordinated to form complete sets, whether items can be speedily delivered and whether the supply of spare parts and technical servicing can keep up with needs. For the assessment of a specific item of equipment, we must carry out a comprehensive examination of its efficiency, its consumption and costs. In all these respects, we find shortcomings, the most outstanding of these being the high consumption of energy and low efficiency of the machines, as we shall show in the following examples:

##### 1. Equipment for Thermal Power Plants

In 1979, the entire energy consumption of domestically manufactured power generating equipment in thermal power plants converted to standard coal was 17 percent of the total nationwide energy consumption. Coal consumption for the generation of electricity in domestically manufactured units of 6,000 or more kW capacity was 475 gram per kWh, compared to 120 gram per kWh in Japan, the reasons being:

First, the composition of our thermal generating units is backward; the medium voltage units of less than 25,000 kW capacity per single unit now account for about 28 percent of the total capacity, and the coal consumption of these units is over 550 gram per kWh. Besides, at the end of 1979, the 100,000, 125,000 and 200,000 kW units manufactured in China will consume about 1.9 million tons of coal per year in excess, if compared with the technological standards for such units produced abroad (for a comparison of coal consumption in domestic and foreign thermal electric power generating units, see Table 1).



Second, the auxiliary equipment in the power generating installations is backward, which is one of the reasons why self-consumption of electric power in our power plants is high. For example, in the power generating installation of 125,000 kW capacity, the water pumps at the boilers, manufactured domestically, have an efficiency of 71 percent, while similar pumps of German manufacture have an efficiency of 80 percent. For domestically manufactured pumps in each 125,000 kW thermal power installation, 10.4 million kWh of electricity are used in excess every year. Calculating this figure for all 100,000 and 125,000 kW units available in 1979, the water pumps attached to them consume an excess of 1.08 billion kWh every year, which amounts to 5 percent of all electric power produced in 1979 in all power plants throughout the country, or an amount equal to 1 year's output of electricity of two 100,000 kW units.

Transformers are important electrical equipment in the electrical transmission system. The iron cores of domestically produced transformers consume about 30 to 40 percent more energy than internationally accepted standards. At present more than 500 million kV transformers are in operation in China, consuming an excess of over 5 billion kWh per year, which amounts to over 2.2 million tons of standard coal.

## 2. Industrial Boilers

Coal-burning industrial boilers are very rare abroad, as almost all of them now burn oil; a comparison of thermal efficiency is, therefore, not possible. A comparison of our oil- and gas-burning boilers shows that they are close to the technical level of foreign boilers, namely, showing a thermal efficiency of 85 percent in the case of oil-burning boilers as compared to generally 88 percent of foreign oil-burning boilers and an efficiency of 85 percent in the case of gas-burning boilers as compared to generally 86 percent in the case of foreign gas-burning boilers.

The thermal efficiency of large and medium boilers burning coal, manufactured by industries under the First Ministry of Machine-Building, is generally 70 to 75 percent. Particularly low in thermal efficiency and high in coal consumption are small boilers of less than 4 tons, especially those of 2 and less tons, which show efficiencies of only around 45 percent. There are about 126,000 such boilers throughout China, accounting for 30 percent of the total steam pressure generated in all industrial boilers, burning over 75 million tons of run-of-the-mine coal, which is almost 10 million tons more per year than the standards for domestically produced industrial boilers would allow. It is here that we must see the target for our main thrust of economizing energy in the production of industrial boilers.

## 3. Motor Vehicles

In recent years some work has been accomplished and some improvements have been achieved in gasoline economies in motor vehicles. For instance, special carburetors for use in high elevations and for use in the plains can save about 7 percent in gasoline consumption; the improvement of the engine, increases in the compression ratio and improvements of the carburetors in

the "Liberation" brand cars can save about 7 percent in gasoline consumption. However, since our cars are mostly models of the 1940's and 1950's, they are very far behind the levels of foreign products. Gasoline consumption of domestically produced cars is generally 3 to 26 percent higher than in foreign cars of similar type (for a comparison of the main models with foreign cars, see Table 2).

In 1979, there were 1.92 million motor vehicles in China, of which 1.58 million had been manufactured in China, and among these the seven main models accounted for 78 percent. Their total annual consumption of gasoline is 6.28 million tons of gasoline, or 67 percent of the total nationwide consumption of gasoline. Their annual consumption of diesel oil is 5,000 tons, or 0.03 percent of the total nationwide consumption of diesel oil. Because of their higher consumption of gasoline compared with foreign cars, the domestic motor vehicles consume an excess of 1.23 million tons of gasoline every year.

#### 4. Medium and Small Electric Motors

The medium and small electric motors that are presently being produced in China (the J02 series) had been officially standardized and put into production in 1966. In their design, economies in the use of copper and of silicon steel plates was particularly emphasized at that time, so that their starting torque was lower than in similar foreign motors, as was the power of these motors. Users were forced to use a more powerful auxiliary motor to get them started, but once started, they proved to be quite powerful; people used to say, "large horse pulling small cart." For instance, some milling machines needed only 5.5 kW motors, but had to get a 7.5 kW motor as auxiliary equipment to start up.

#### 5. Industrial Pumps, Air Blowers

Efficiency is generally 5 to 10 percent below that of the foreign products. In 1979, power consumption of all industrial pumps throughout China was about 23.5 billion kWh, accounting for 8.5 percent of all electricity produced nationwide. The excess of electric power used every year, which can be attributed to the low efficiency of the pumps is about 1.1 to 2.3 billion kWh. In 1979 all air blowers throughout China consumed about 15.9 billion kWh, which amounted to 5.7 percent of the entire electric power produced nationwide, in which about 800 million to 1.6 billion kWh were in excess due to low efficiency.

The discrepancies compared to advanced technological levels in foreign countries was even greater in the energy consumption figures concerning complete sets of installations manufactured in China.

#### C. An Analysis of the Reasons for These Discrepancies

There are a variety of reasons for the high energy consumption of our engineering products.

First, backwardness in scientific research, lack of a technological reservoir, weaknesses in our testing methods.

During the First 5-Year Plan, we used to import everything, from the single products to whole factories, to achieve a speedy construction of China's machine industry. However, because we lacked our own practical experience at the start, this method of importing and using complete sets engendered in us, unconsciously, a wrong attitude, the main aspect of which was that we did not fully realize the importance of strengthening our own scientific research and designing work and thorough testing methods, thus neglecting these types of work.

In our arrangements during the planning stage, we would often first fix the construction project, then give thought to the development of the new product and only at the end determine items for scientific research, which was really putting the cart before the horse. In the case of many important products, there was often not enough time given to scientific research and experimentation and not enough necessary testing done before the products were put into production and operation. Many problems then propped up, making it necessary to turn back and try to "debug" the defects. The state's method of evaluation was also only focusing on output values, tonnages, and total kWh's, encouraging merely the achievement of greater production capacities, one-sidedly pursuing quantitative norms and neglecting the improvement of the technological level. In investments and operations, consideration was often given only to building factories and procuring equipment, without showing interest in scientific research. Whenever expenditure had to be cut down, it was often the laboratories that were cut down, or even the testing processes of the factories or the maintenance of factory buildings. Especially during the 10 years of turmoil, scientific research suffered seriously, and a whole 10 years of opportunity for technological developments and for the building up of a technological reservoir was lost.

In the designing of products we are basically still in a kind of experimental stage. In most cases we follow foreign blueprints or models, adding here, reducing there, enlarging here, shortening there, but without any independent designing on the basis of our own experiments. During the trial production of many large items of manufacture and their initial operations, it was not possible to evaluate certain components or the operation of the entire machinery because of deficient means of inspection and testing. For instance, our factories still cannot carry out performance tests of air blowers on power plant boilers of 50,000 or more kW. Furthermore, in foreign countries the road tests of motor vehicles can be conducted on platforms within the laboratory, which requires little time and space to evaluate scientifically the gasoline consumption, noise, vibrations and wear and tear factors. In China we can only obtain these data by actually driving the cars for months and years all over the country. All this has an adverse effect on efforts to quickly improve the quality of our products.

Second, backwardness of equipment and techniques.

a) The structural composition of our equipment is outdated. As to our machine tools, we generally find them in large numbers, but few of them are high-precision and high-efficiency tools of a specialized nature. Common lathes for rough finishing make up 43 percent of the total machine tools in operation, while this figure is only 25 percent in the industrially developed countries. High-precision grinding machines make up 10 percent in China, but 22 and more percent in the United States, France and the FRG. Our productivity in the manufacture of equipment is, therefore, low and materials consumption high (our utilization rate of steel materials is only 65 percent, while it is 75 to 80 percent abroad; this is, of course, related to deficiencies in quality, standards and varieties of the domestically produced steel materials themselves). Especially machine tools manufactured during the 10 years of turmoil and those manufactured by factories of people's communes in certain counties, amounting to over half of all present machine tools, are mostly of bad quality. b) Machine tools now in operation have been working for excessively long periods of time, without timely replacements. Key enterprises established during the First 5-Year Plan and operating since then, have generally been using their equipment for the last 20 years, and the precision of such equipment has deteriorated greatly, making it difficult to ensure good quality in their products. Among the machine tools in use for 10 or more years, only 32.5 percent are still of fairly good quality. c) Shortages, little use of noncutting techniques and technologies, and considerable backwardness in heat treatment and surface protection technologies that would ensure a long life for components and parts. d) Low technological level of personnel, technical personnel making up only 5 percent of the total working force. Over one-half of the young workers entering the factories since 1970 generally lack basic technical training.

Third, much duplication in construction and low productivity. In the preceding periods, some localities did not care whether there was a real need for their products, and regardless of whether basic technological conditions existed, blindly started up machine factories. They produced large quantities of machinery at a high rate of consumption and of bad quality, some breaking down in actual operations. Since the state instituted the reconstruction of boilers in 1972, the production of low-efficiency small boilers in a number of state-operated enterprises was gradually stopped, but the production brigade enterprises in the communes, on the contrary, undertook large-scale above-quota production. Although almost 60,000 boilers of less than 50 percent thermal efficiency had been reconstructed, 60,000 new boilers of low thermal efficiency have been manufactured in the last few years. Currently, apart from some 100-odd specialized boiler factories, there are still large numbers of other factories all over the country that manufacture boilers. In the four provinces of Henan, Shandong, Liaoning and Jilin, there are over 400 factories that manufacture small boilers. In 1979, boilers of a total of 13,000 steam tons have been produced, generally of a thermal efficiency of only around 40 percent. In 1978, 108 accidents of boiler explosions occurred, and in 101 of these cases, the boilers involved had not been manufactured by specialized boiler factories.

Fourth, errors and many reversals in policies on technological equipment and fuel have also adversely affected the development of our machinery production.

During the readjustment period of the 1960's, the state studied and determined a policy on technological equipment. The machine industry made every effort to implement that policy, strengthened scientific research and manufactured such items as a complete 50,000-ton synthetic ammonia installation, a 1-million-ton oil refining installation, precision machine tools and nine further large installations, and also established a certain technological reservoir. The gap between the technological level of many machine products (such as precision machine tools) and those of the advanced countries of that time was quickly narrowing and outstanding successes were achieved.

However, looking back over the last 30-odd years, China committed many errors in its policies on technological equipment and also frequently changed its policies, which inevitably had an adverse effect on the development of engineering products and on improving their quality. For instance, one of the principal reasons for the high coal consumption in our thermal power generating plants is the irrational proportions in the composition of our power generating installations: the preponderance of small units. This, too, is related to the guiding policy that prevailed in China for a considerable length of time, namely, the emphasis on the combined development of large, medium and small plants, giving priority to the medium and small plants and the lopsided development of such medium and small plants. Of course, all technologies require a process of development, the problem in the case of China was merely that action could not be taken in good time to carry out necessary and adequate adjustments and improvements in its policies. In the Soviet Union, for example, coal consumption for thermal power generation during the 10 years from 1965 to 1975 dropped from 414 grams to 340 grams per kWh. One of its major measures was the development of large generating units and the dismantling of many inefficient small plants. In the mentioned 10 years, the proportion of large generating units of over 150,000 kW increased from 39.35 to 67.25 percent, and the proportion of medium and small units dropped from 56.5 to 30.68 percent. Other countries are now also giving preference to the development of large generating units. In 1979, generating units in the United States of over 200,000 kW capacity per single unit accounted for 60 percent of all thermal power generating units, in Japan for 75.9 percent, and the situation in England was quite similar. In China, the development of large-scale units was only begun in the later years of the 1960's, with the first 200,000 kW unit going into operation in December 1972. However, since we never had anything like a technological reservoir in the field of large-unit development and the state invested little in scientific research, the development from single units of 100,000 kW capacity to units of 200,000 and 300,000 kW capacity took 9 years, and we still do not possess production capability for larger lots of the 200,000 and 300,000 kW type of power generating units. Currently, large units of 200,000 kW or larger capacity account for only 13.6 percent of China's total capacity, and an adjustment of this proportion is urgently required. China now needs large generating units, but in the first place lacks the technological reservoir, and, secondly, is slow in creating capability for the production in larger lots, so that there is no other alternative left to the use departments but to import such units from abroad.

Changes in the fuel policy have had a great impact on the development of equipment. There was the change from coal burning to oil burning and again back to coal burning, and even after the development of production capabilities for gas turbines--technologically a comparatively new type of equipment--the situation was still that no production tasks were actually issued for them. Since 1958 nuclear energy installations were initially talked about, with interest rising and falling, but once such projects were abandoned as items of capital construction, scientific research also came to a halt.

Fifth, disjointed development of equipment designing and of the designing of technical processes, failure to conduct technical and economic analyses and to master the methods of systems engineering.

Although for quite a long time both the use departments and the manufacturing departments all had a certain number of scientific research units that did launch scientific research work, each side was only concerned with one segment and none engaged in overall research for an entire technological process. The machinery manufacturing departments did not have a basic knowledge of the technological processes of the use departments to be able to carry out the designing and the manufacture of equipment, and the use departments were designing their technological processes without being familiar with selected equipment models and rational selecting and assembly conditions. For these reasons disjointed developments occurred, and it became impossible to achieve excellence in designs on the basis of a technological and economic analysis of the overall projects. For instance, if a chemical fertilizer plant had made suitable selections of all its main and auxiliary machinery for its technical processes, also had done a good job as to its thermal energy systems engineering, is comprehensively utilizing all its thermal energy, it will be able to achieve high production, high quality, savings in coal, and will also be able by utilizing its own surplus heat, to generate electric power that will result in greatly reduced supplies needed from the general electric power network. Furthermore, a composite thermal power installation of 300,000 kW has over 37,000 mechanical and electrical components and parts. If any one link in this system is not suitably selected, it can adversely affect the efficiency of the whole unit and even most seriously affect the amount of its energy consumption. Up to the present, there has been no planning for the greater excellence of entire systems and unsuitable selections and assemblies of capacities and parameters as between main items and auxiliary items of equipment in power stations frequently occur; this is a major factor why the overall technological and economic efficiency of our power generating equipment lags behind that of the advanced equipment in foreign countries. Similar conditions exist in the chemical engineering and steel industry regarding their complete sets of equipment. Without a reform of the organizational system and without organizing designing and production in a way that integrates equipment designing and technological ~~process~~ designing, with involvement mainly of the manufacturing departments, according to the scientific methods of systems engineering, we shall be unable to rapidly raise the efficiency of our operations.

Sixth, inadequate cooperation between various departments of the national economy.

The machine industry is a processing industry which requires close cooperation with the departments in charge of raw and other materials, of fuel production and of other items. Without high-quality light steel products, without industrial plastics, and high-quality tires, the gross weight of motor vehicles will be high and more fuel will be consumed in transportation. Without suitable fuel, more gasoline will be consumed operating the motor vehicles. Without high-quality lubricating oil, the friction drag in the engines will increase and the wear and tear of the machines will also increase, etc., so that in the end the use departments would be provided with motor vehicles of poor performance and high energy consumption. This shows that the relationship between the machine industry and other industries is one of complementing each other, of interconnections and mutual interactions and promotions.

Apart from this, there are certain new products of large dimensions and new technologies that cannot undergo operating load tests before shipment of the complete installation from the factory, and where a final evaluation is only possible after tests in actual industrial application. In the past, two erroneous tendencies have occurred in connection with this problem: one was that the manufacturing department without evaluation and testing in actual operations used the new technology in large-scale production; the other was that the use department did not actively arrange for operational testing of the new technology. These problems must also be solved to achieve beneficial energy savings in the development of new products and new technologies.

Seventh, ideological lopsidedness is also a factor that has an impact on the improvement of engineering products.

Whenever the question of "catching up and exceeding" is raised, there will only be a hankering after new technologies and high parameters to the neglect of economic results and considerations of suitability for China's national conditions. Whenever the question of progress is raised, attention will only be paid to "light weight, small volume, simple structure," and the question of whether the product is durable, safe and reliable is being neglected. Whenever the question of economizing is raised, the response is only to use less materials or an inappropriate "substitution," resulting in poor performance and low reliability of the product, or even evoking an attitude of regarding reasonable safety margins in the design as too conservative and condemning such designs, which then can easily lead to accidents after the equipment is taken into use and proves unsafe.

## II. Focal Points of Concern and Steps of Future Action

Accelerating the renewal and updating of engineering products and the development of new energy-saving equipment that would contribute toward the country's energy conservation are currently tasks of top priority in the engineering industry. The 26,000 products listed in the 1979 statistics may be divided into three categories according to their energy-consumption characteristics. The first category of products, those that require very little energy, consist of about 19,000 items, such as automated instruments and meters, optical instruments, bearings, tools and measures, hydraulic pump

components, ceramics for electrical use, valves and analytical instruments. The second category of products, those that require fairly large amounts of energy, but are not items of widespread use, consist of about 4,000 items, such as smelting installations, steel rolling mill machinery, mining machinery, heavy forging presses, large electrical machinery, gas turbines, etc. The third category of products, those that consume large quantities of energy and are used on a widespread scale, consist of about 3,000 items, such as motor vehicles, industrial boilers, power plant boilers, water pumps, air blowers, compressors, medium and small electrical machines, electric welding machines, electric furnaces, transformers, etc. The products of the third category are found in all industries and trades, are produced in large quantities, much used throughout society and have, therefore, large potential for energy savings. Figured according to the present use in society, the coal consumption of this one category of products accounts for about 33.5 percent of total annual coal consumption throughout the whole country, for 90 percent of total gasoline consumption and for 61 percent of total consumption of electric power. It is, therefore, this category that is of important relevance to energy conservation. We must, therefore, give priority consideration to energy savings in these items of equipment and primarily focus our efforts at improvements and renovations on these items.

#### A. Focal Points in the Development of Energy-Saving Products

1. For savings in coal consumption, the focal points are reduction of coal consumption in boilers and raising the developmental proportion of large and medium power generating units. The renewal and renovation of industrial boilers must focus on boilers of 2 or less tons. They must be replaced in batches by fast-feeding boilers of 60 percent efficiency, which could save up to 10 million tons of coal a year. However, this would require solving first of all the financial problem of finding funds needed for the renovations. Through national legislation or administrative measures we should designate selectively certain boiler-manufacturing plants and issue them permits. The further manufacture or use of any boilers of less than 50 percent efficiency, so-called "coal tigers," must be prohibited. New industrial zones must develop centralized heat supply or joint heat supply systems. Furthermore, where local conditions permit, boilers should be developed that burn second-grade bituminous coal (3,700-4,700 calories) and coal of low calorific value (below 3,700 calories), so as to save high-quality coal; such measures should be comprehensively applied. To improve the fuel supply system, it is suggested to institute a system whereby fuel for boilers shall be supplied by designated coal mines according to the localities concerned.

The renewal and renovation of thermal power installations must focus on giving increased attention to the proportion of large and medium units. The main way to do this is: First, to give priority in future supplies to the large and medium units, i.e., to give priority during the Sixth 5-Year Plan period to large-scale supplies to power generating units of 200,000 kW, and to actively manufacture on a trial basis and also to import 300,000 and 600,000 kW units. During the period of the Seventh 5-Year Plan, priority should be given to large-scale supplies to 200,000 and 300,000 kW generating units, and a small amount also to supplies to 600,000 kW generating units. We must



coordinate this action with the importation of foreign technologies to further improve the 100,000, 125,000, 200,000 and 300,000 kW generating units that have been manufactured domestically and are currently in operation. Second, we must appropriately develop heat-supply and electric power generating units, effect joint production of heat and electricity, which would indeed enable us to double and redouble thermal efficiency. Third, according to rational technical and economic principles, we must restructure the small generating units of medium and low voltage within our large power network.

Raising boiler efficiency requires the burning of high-quality coal and increasing the proportion of washed coal, which, therefore, would require an energetic development of coal-washing installations. The supply of high-quality washed coal will not only raise boiler efficiency and economize in energy sources, but will also greatly reduce transport volume. For instance, the refining of 1 kg of second-grade bituminous coal will raise its quality from 4,500 to 5,500 calories. Its thermal efficiency will be raised 2 to 4 percent, and fuel consumption and transport volume reduced 21 percent. To speed up development of coal-washing installations, we must improve the capacity of our washing installations of less than 1.8 million tons per year capacity, raise their service lifespan, raise the level of automatic controls, and at the same time firmly take in hand the development and industrial testing of coal-washing installations of 3 million tons per year capacity.

2. Efforts to economize in gasoline consumption must focus on reducing consumption in motor vehicles. The principle in the future development of our motor vehicle production must be to improve our old models and simultaneously develop new models, and to improve gasoline cars and simultaneously develop diesel cars. We must resolutely take up the improvement of the seven basic car models and restructure them. In all this work we must particularly stress remodeling the "Liberation" brand trucks, which are produced in the largest quantities every year and are most widely used.

3. Efforts to economize in electric power consumption must focus on the improvement of all low-efficiency equipment that uses electric power. Such electric equipment as electric motors, air blowers, water pumps, air compressors, transformers, electric welding machines and resistance furnaces, all of which consume large amounts of electricity, must be improved in their designs and technologies, taking on the easier tasks first and proceeding to the more difficult ones later, and gradually attaining a high quality in these products. Particular attention must be paid to water pumps, air blowers, coal grinders and other auxiliary equipment supporting thermal power generating units, and to improve, first of all, the water pumps and air blowers on the boilers of power stations of over 100,000 kW, which consume large amounts of electric power, so as to reduce the consumption of their own power at power plants.

4. Energetic development of equipment for comprehensive utilization of energy (utilization of surplus heat, surplus voltage, smoke and steam, etc.) and efforts to raise the utilization ratio of energy sources. According to investigations by departments concerned, the surplus heat now being

generated throughout China is equivalent to 20 million tons of standard coal, but it is little used and offers a large potential for energy conservation. The melting furnace at the Hangzhou Glass Co discharges 60,000 m<sup>3</sup> of 500-degree-temperature smoke and steam every hour. To utilize this escaping heat, the said factory last year invested 400,000 yuan and added 3 boilers. This is saving 3,000 tons of gasoline per year and allowed the plant to recover its investment within 1 year. It also reduced environmental pollution. Recovery and utilization of large quantities of surplus heat and the reduction of environmental pollution is also possible by the installation of equipment for the recovery of energy from smoke and steam on other installations used for such technological processes as the production of electrical energy from surplus voltage at blast furnaces, heating boilers with surplus heat from open-hearth furnaces, dry-quenching of coke in the coking process, oil refining and processes of the chemical industry.

5. Raising the efficiency of equipment for the exploitation of energy sources. Currently, China is manufacturing a number of items of equipment of energy-source technology that are less efficient than those of foreign countries. Taking hydroelectric installations as example, the rotating wheels of mixed-flow hydraulic turbines of foreign makes have an efficiency of 93 to 95 percent and repairs of damage due to cavitation is needed only after 5 or more years. In domestically manufactured turbine wheels the efficiency is 90 to 92 percent and large repairs due to cavitation are required every 2 to 3 years. To raise efficiency we must restructure the turbine blades, the turbine housing, the shape of the water-exit pipe and raise the efficiency of the flow sections. Renovation of all other energy generating equipment is also to be stepped up.

#### B. Specific Steps for Future Action

There is a large number and great variety of products of the engineering industry, and their applications are widespread. We must achieve our objective of energy conservation by stages and in groups according to different conditions displayed by the various items, as follows:

First, items of a small degree of technological difficulty, requiring little expenditure and easily yielding good results in energy conservation, should be taken in hand within 1 or 2 years.

Production of types of equipment that are already in existence must be energetically organized according to the needs of the users. For instance, where 1-2 ton industrial boilers have to be replaced, existing products of 60 percent efficiency standards can immediately be organized for production and supply.

We must resolutely take up the supply of high-pressure heaters for all thermal power generating units. One power generating unit of 200,000 kw capacity will consume 15,000 tons of standard coal more every year and generate 100 million kWh less, if it is not equipped with a high pressure heater.

Instruments and meters as tools for measuring, testing, analyzing and for various control processes are of direct service to the development and conservation of energy sources. If instruments and meters are installed that can measure, analyze and test energy sources, we can obtain reliable evidence to measure the values involved and exact figures on economies achieved in our work of energy conservation. We shall then be able to fix norms for energy consumption, measure consumption separately for each user, arrange an overall equitable balance, discover the weak links in our energy conservation and promptly decide on measures of energy economy. This shows that strengthening our measurement methods and increasing the supply of instruments and meters will play an important role in improving our control of the sources of energy and in the actual conduct of energy conservation. As to the three types of meters used by the general public (for electricity, water and gas), we must continuously expand their production and supplies under the intensified guidance of the plan. We must also coordinate our technological reforms in all industries and trades, in line with our need for efficient management of our energy sources, with the energetic production of measuring and analyzing instruments and meters. Besides, all industries and trades concerned with machines and electrical devices that generally use meters should organize a contingent to work particularly for energy conservation, to be charged with personal visits and with giving assistance to technological reforms that have energy conservation at their core in such industries as the metallurgical, chemical engineering, petroleum, sugar refining, glass and paper manufacturing and cotton spinning industries.

We must exert efforts to improve manufacturing techniques, so as to raise the energy conservation characteristics of our products. For instance, in the case of air blowers and water pumps, the improvement of finishing and casting technologies and improved precision and smooth finish of the flow channels can raise efficiency by 2.5 percent. We must sum up experiences and gradually spread all technical knowledge for widest application.

Regarding products that have undergone improvements in design within the last 2 years, and that have been put into production on a trial basis, we must pay close attention to their evaluation and, if appraised suitable, have them put into production. We must furthermore determine that after a production for a certain number of years, the production of old types of a product must be stopped.

Second, products that involve complicated technologies, that require assimilating and mastering imported technologies, or products of a kind that are presently nonexistent in China and for which research and production is only now being started, are to be scheduled for effective results around 1985. For instance, the complete remodeling of the "Liberation" brand motorcars and the starting up of the production of 6-ton diesel cars must be accomplished in coordination with the technological reforms at Automobile Plant No 1 and the importation of technologies. A 10 percent improved efficiency of air blowers and water pumps, thus attaining the technical level of West German products, still requires a developmental process, but with hard work may be accomplished by 1983 or 1984.

Certain products must be actively developed with due consideration for China's national conditions. For instance, in the case of industrial boilers, we must develop a type of boiler--currently nonexistent--for bituminous coal, burning 3,700 to 4,700 calories per kilo. We must improve the present types of boilers that burn high-quality coal and those that burn coal of low calorific value, to raise thermal efficiency by about 2 percent over the present level. Furthermore, to respond to local needs for heat supply, we must develop hot water boilers of large capacity.

Third, certain large-scale complete sets of equipment, such as power generating equipment of 300,000 and 600,000 kW, require a lengthy period of development. We must now start with their development so as to be able to realize the various objectives of energy conservation during the period of the Seventh 5-Year Plan.

### III. Suggestions and Practical Measures

A. Development of Energy Saving Products Requires Strengthening of Planning and Guidance. It is suggested that the Planning Commission, the Economic Commission and the Engineering Commission jointly with the Ministry of Communications, the Ministry of Electric Power, the Ministry of Chemical Industry, the Ministry of Metallurgical Industry, the Ministry of Coal Industry and the First Ministry of Machine-Building organize the study and draw up plans for the renovation and reconstruction of installations used in large quantities on a widespread scale and of a high energy-consuming nature in the various industries and trades of which they are in charge (such plans to include determination of times, key points, scales, quantitative data, rate of progress and methods to solve the financial problems). They should also restudy and redetermine depreciation and renewal cycles to enable appropriate arrangements for production. It is suggested that the departments concerned coordinate the long-term and immediate needs for energy conservation and development of energy sources and draw up as early as possible a policy regarding technological equipment, so that the work of scientific research, experimental manufacture and the accumulation of a technological reservoir will proceed as required and could be started as soon as possible.

B. Scientific Research Must Precede the Development of Energy Saving Products. We must strengthen basic technological research, especially speed up the development of basic technological and theoretical research in the fields of structural strength, vibration, noise, friction and wear and tear, and also in such fields as lubrication, combustion, etc. We must study and promote such new techniques and theories of planning and designing as the finite element method, analytical procedures for large common structures, the science of the breaking strength of materials, etc., in order to raise the quality of our equipment and technologies, and furthermore to establish and strengthen our accumulated technological reservoir. We must make energy conservation one of the important tasks in the structure of our scientific research and planning, adequately adjust the proportionate investments of the state, increase funds for scientific research, build up a certain number of testing and experimenting centers, and fully equip several factory-connected laboratories at key factories.

C. In Our Development of Energy Saving Products We Must Integrate Administrative Involvement With the Effective Utilization of Economic Levers. (1) We must resolutely start drawing up and redrafting our energy consumption norms for mechanical and electrical products. (2) We must adopt and promulgate a method of production permits and eliminate a number of products of very poor quality that consume much energy. (3) According to the principle that cooperation is needed between manufacturers of specialized products, we must use coordinate the methods of closing down, stoppage, merger and retooling of enterprises with the fostering of a number of key enterprises manufacturing energy-saving products. (4) We must decide on a corresponding pricing and taxing policy and encourage the development of new energy-saving products. Poor-quality products that consume much energy and that have not been improved for a long time must be taxed at higher rates, or a time limit should even be set for the cessation of their production. (5) We suggest that the state draw up reward and penalty regulations and select the best new products that show outstanding savings in energy consumption to be given rewards.

D. Mainly Relying on the Principle of Self-Reliance, We Must Strengthen Scientific Research, Planning and Experimental Manufacture in Coordination With the Importation of Foreign Technologies. There has to be a close connection between production and efforts at strengthening scientific research and the development of new products. If at the same time certain new technologies cannot be worked out domestically within a short time, in spite of the fact that they are urgently needed, there is no other alternative but to import them, "gaining twice the result with half the effort." However, importation must benefit strengthening our ability to develop energy saving products in self-reliance. We must therefore pay attention to the following: (1) Imported technologies must be arranged for selected factories that have a good technological basis for production. (2) We must emphasize our own capability to absorb, master and promote widespread application, also to develop improvements after gaining a "thorough grasp" of the item concerned. When we imported technologies in the past, we often neglected the problem of absorbing and mastering the imported technologies, and this error must be corrected. When arranging the importation of an item of technology, we must be sure to pay attention to the expenses needed for its successful absorption and complete mastery. In foreign countries the expenses in this respect are generally three to seven times the amount expended on the importation itself. In China, with its comparatively low level of S&T, and poor facilities for scientific research, experimentation and testing, the ratio of expenditure for absorption and mastering the imported technology must be even higher and has to be generally in the ratio of 1:5 or 1:6.

E. Reform of the Management System. We must break down whatever strict borderlines exist between the manufacturing, use and scientific research departments, and must develop a mutually coordinated joint entity of use departments with manufacturing departments, scientific research units, schools and factories, and thus create a close integration of the technical processes of the enterprises with the manufacture of equipment, scientific research and production. We must gradually achieve a comprehensive mastery of all technological processes in the use departments as well as in the manufacturing

departments and develop in the direction of a work system of systems engineering, i.e., a system of delivering "key ready" projects.

F. To Develop Energy-Saving Products, All Sectors of the National Economy Must Work in Coordination and Must Cooperate Harmoniously. Arrangements must be made for soonest possible experimental use of important new energy-saving products that have already been developed, so that as a further step their production, expansion of series and their widespread application can be arranged according to needs and so that energy conservation will be achieved on an ever wider scale.

G. Departments Concerned Must Take On the Responsibility of Supervising the Implementation of all Laws and Regulations on Energy Conservation Repeatedly Promulgated by the State.

H. The State Shall Allocate Special Funds and Operational Expenses for the Development of Energy-Saving Products, so that Energy Conservation Work Can Be Further Advanced Toward Materialization of Our Objectives. (1) It is suggested that a part of the energy resources development fund be allocated to the departments in charge of manufacturing and to the use departments to solve the key problem in the scientific research, experimental manufacture, propagation and application of important energy-saving equipment. (2) As to funds needed by the enterprises to develop energy-saving products, apart from the 3 percent which they may draw from profits according to current regulations, the enterprises shall be furnished by the state with government loans at low interest to the amount the enterprises may find themselves short for such needs, or they may consider including such amounts in their costs of production. (3) The following measures are suggested the state may take to solve the problem of technological reform funds needed to put larger lots of important energy-saving products into production and to ensure their continuous production: appropriately raise the depreciation rate of old equipment; allocate a suitable amount out of profits for an S&T development fund; the state to provide subsidies or loans at low interest. (4) It is suggested that the state take the situation as a whole into consideration in the question of arranging funds needed for renewals and renovations of such items of equipment owned by society that are widely used and to a high degree energy consuming.

Table 1: Comparison of Coal Consumption in China and Abroad  
in Thermal Power Plants

Capacity of Generating Unit  (in 10,000 kW)	Coal Consumpt. Index In Power Generation	China	Abroad	Remarks
0.9	gr/kWh	680		Comparison impossible because ad- vanced coun- tries hardly use generat- ing units of small capac.
1.2	"	540		
2.5	"	500		
5	"	400	390	
10	"	380	360	
12.5	"	355-370	350	
20	"	350-365	345-350	
30	"	335-360	305	

Table 2: Comparison of Differences in the Characteristics  
of Chinese and Foreign Motorcars

Model	Loading Capacity (tons)	Oil Consumpt. per 100 k (liters)	Oil Consumpt. per ton and 100 km	Weight (kg)	Maximum Speed (km/hr)
1. Beijing BJ-130	2	15-17	7.5-8.5	1,880	85
Japan Toyota DYNARU 12	2	12.8-13	6.4-6.5	1,840	110
2. Liberation					
CA-10B	4	under 29	under 7.25	3,800	75
USSR GAS 53A	4	23	5.75	3,250	85
3. Dongfeng					
EQ-140	5	28	5.6	4,080	90
USSR Zil 130	6	28	4.7	4,300	90
4. Huanghe JN-150	8	24	3	6,800	71
Sweden Volvo C 485	7	20.5	2.93	5,800	80

5. Beijing Jeep			
BJ-212	17	1,530	98
United States			
CJ-7	15-17	1,249	100
6. Shanghai Sedan			
SH-760	14	1,440	130
FRG Benz 200	11.1	1,340	160
7. Hongqi CA-770	20	2,730	160
FRG Benz 600	26	2,770	200
USA Cadillac	30	2,600	180

Note: All are gasoline engines, except Huanghe JN-10 and Volvo C585 which are diesel engines.

9808

CSO: 4006/224



25 March 1985

## INDUSTRY

## DEVELOPMENT OF SHAANXI TEXTILE INDUSTRY REVIEWED

Xi'an SHAANXI RIBAO in Chinese 22 Aug 84 p 2

[Article: "Textile Industry Has Rapidly Developed In the Past 35 Years"]

[Text] The famous 800 li of Qinchuan is one of China's principal cotton-producing regions, but on the eve of Liberation there were only 5 cotton textile mills in the whole province and large quantities of cotton had to be shipped to other provinces.

During the 35 years since Liberation, earth-shaking changes have taken place in Shaanxi's cotton industry. From 1949 to 1966, 14 large and medium-sized cotton enterprises and a large number of small ones were successively built and began production in Xi'an and Xianyang. The rapid pace and high efficiency were unprecedented in the nationwide textile trade. At the same time, we have strengthened production management, established a system of regulations for the management of a complete set of production techniques, popularized advanced experience such as the Hao Jiangxiu [6787 1696 4423] work method and fostered the famous advanced group on the national textile front--the "Zhao Mengtao [6392 1125 2711] group".

At the same time when we concentrated our energy in building a number of key enterprises, various prefectures, cities and counties also suit measures to local conditions and paid particular attention to active development of almost 100 various types of small enterprises in knitting, yarn-dyed fabric, wool spinning, hemp textile, printing and dyeing, replacement parts and equipment and materials, filling the gaps in our province in order to increase the designs and varieties and making contributions to fulfill market needs.

In recent years, in order to further satisfy the consumption needs of the broad masses of people in towns and rural areas for textile goods and the need to expand export, we have centered around the development of chemical fiber textile knit goods, broad fabric, new designs and varieties and have comprehensively conducted technical transformation of old mills. At the same time when we adopted advanced technology and equipment inside China, we have imported advanced equipment of the 1970's from abroad including complete sets of open-end spinning equipment, spray looms, broad medium-length textile woollen fabric dyeing and warping lines, polyester-cotton fabric dyeing and

warping lines, warp knitting machines, circular weft machines and woollen knitting machines. We have readjusted the structure of products, increased the quantity of medium-length textile woollen fabric, low-stretch fabric, chemical fiber warp-knitted and weft-knitted bedding material as well as various decorative fabric and other new products, accelerating the pace of development of Shaanxi's textile industry and achieving good economic results. During the 5 years from 1979 to 1983, we used 800 million yuan of fixed asset provided by the state for production and management, generated a total output value of 11 billion yuan and handed over 2.33 billion yuan in taxes and profits to the state. In other words, for each 100 million yuan of fixed assets we handed over 290 million yuan in taxes and profits to the state in a 5-year period. The total output value of Shaanxi's textile industry in 1983 increased by 50 folds over that in 1949. We have accumulated a total of almost 8 billion yuan in construction fund for the state and the total export value of textile industrial goods constitutes two-thirds of the provincial total.

9486

CSO: 4006/126

INDUSTRY

SHANGHAI'S OBJECTIVES IN DEVELOPING TERTIARY INDUSTRY

Xian SHAANXI RIBAO in Chinese 6 Dec 84 p 2

[Text] 1. Development of various types of engineering contracting companies and companies supplying complete sets of equipment. The Joint Interior Decoration Contracting Company recently organized by the Municipal Handicraft Bureau is a company of this nature. The designing institutes of the textile, metallurgical and chemical industries, building construction companies and machine-building companies should unite with each other to organize engineering contracting companies to serve factories in Shanghai and other parts of the country in technical transformation.

2. Development of information and technical consultation service companies. The Municipal Office of Defense Science and Technology has formed a company which offers consultative services on the application and development of defense science and technology. The Textile Industry Bureau plans to muster the statistical personnel of organizations under the bureau to form an information service company based on the Textile Society's technical information office.

3. Establishment of a Shanghai Industrial Technological Development Center which operates on a business basis. The center will offer consultative services focusing on product development from results of scientific research, supplementary key products, specialization and coordination, development of new industries, linking scientific research with production, import, assimilation and innovation of technology, joint ventures and operations, and so forth.

4. Development of a trade center.

5. Supply of complete sets of equipment and services for an individual factory or company for a specific product or production line.

12802  
CSO: 4006/264

## INDUSTRY

### RISE, GROWTH OF TERTIARY INDUSTRY

Xian SHAANXI RIBAO in Chinese 6 Dec 84 p 2

[Text] The concept of tertiary industry was mentioned for the first time by a British economist (Fisher) in his book "The Conflict Between Security and Progress" published in 1935. It was generally accepted by the Western countries after World War II.

Generally the three industries are differentiated according to the relations between production and the natural world. Primary industry refers to departments which get products directly from the natural world and includes agriculture, forestry, animal husbandry, fishery and mining. Secondary industry refers to processing industries which use products of primary industry as raw materials, including manufacturing, power, gas, waterworks and building construction. Tertiary industry refers to all departments which serve the primary and secondary industries, including public utilities (power supply, gas supply, transportation, post and telecommunications, etc.), financial and insurance businesses (banking, trust, rental and insurance businesses), commerce (wholesale, retail, real estate, storage, etc.), machinery repairs and maintenance (auto repairs, parking lots, etc.), service trades (the catering trade, hotels, barber's, bathhouses, beauty parlors, tourism, etc.), culture, education, scientific research and public health, professionals (legal affairs, accounting, journalism, information, advertising, counselling and scientific and technological information), and so forth.

In the developed capitalist countries, more and more people are engaged in tertiary industry work. The rise and growth of the tertiary industry reflect the constantly rising level of the material and spiritual demands of mankind. In the past our economy was divided into "material production departments" and "nonmaterial production departments," which are different from the above classification of three industries. Recently the term of tertiary industry is mentioned more frequently, referring also to the service trades.

12802  
CSO: 4006/264

DOMESTIC TRADE

BRIEFS

SOLVE COTTON-SELLING DIFFICULTIES--The problem of cotton-selling difficulties is now quite prominent in some areas and cotton farmers must sometimes line up for several days in order to sell their cotton. The causes of "cotton-selling difficulties" are very complex and completely solving this problem will also be very difficult. But the carrying out of irrational stipulations in some places and the fixing of grades and prices according to selling times has aggravated "cotton-selling difficulty" contradictions and should be conscientiously solved. The author understands that some procurement units do not consider the particular quality of each batch of cotton but fix its grade in advance according to the time it will be sold; i.e., that sold in the early stage will be grade-1, that sold in the intermediate stage will be grade-2 and that sold in the late stage will be grade-3. This causes turmoil in the hearts of cotton farmers and makes them impatient to sell off their cotton at one time and afraid that if they do not, the grade will be reduced as time passes. The irrational phenomenon of good cotton being sold as poor quality cotton and poor quality as good has thus occurred. The quality of cotton is closely related to its mature period but its selling time is another matter. Cotton farmers have both busy and idle periods, some cotton is picked fast and some slow, and there are both early and late selling times. Due to differences in soil fertility and management standards, there is both good and poor quality cotton even among that with the same mature period. We certainly cannot simply think that all which is sold early is definitely good quality and all which is sold late is poor quality. It is hoped that concerned units will conscientiously solve this problem, do a good job of cotton procurement based strictly on the principle of determining grade and price according to quality, not intensify "cotton-selling difficulty" contradictions, and neither cause the state to suffer losses nor harm the interests of cotton farmers. [Text] [Jinan DAZHONG RIBAO in Chinese 10 Nov 84 p 2] 12267

CSO: 4006/256

## FOREIGN TRADE AND INVESTMENT

### DECISION TO REFORM FOREIGN TRADE STRUCTURE UPHOLD

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 6,  
[November-December] 1984 pp 14-15

[Article by Li Si [7812 2488]: "A New Stage in the Reform of the Foreign Trade Structure"]

[Text] In June this year, the State Council approved the report submitted by the Ministry of Foreign Economic Relations and Trade on the views concerning the reform of the foreign trade structure. This approval signifies a brand-new stage in this reform.

Reform of the foreign trade structure is an important aspect of the economic restructuring in our country. The overall vision was formed gradually on the basis of a conscientious review of our foreign trade work in the past 30 years, a comprehensive analysis of the experiments in structural reforms in the past several years, and the lessons drawn from foreign experiences in the same type of reform. Therefore, this vision is fairly realistic and practical. This reform will deal with the principal contradictions in the present foreign trade and will touch on such defects as the lack of separation between government functions and enterprise management, the lack of unity in responsibilities, rights and interests, the state's overall responsibility for profits and losses, and "eating from the same pot." Such defects have not only stifled the initiative of the localities and enterprises nor hindered the implementation of the policy of opening to the outside world and invigorating the economy at home, but also restricted the state's functions in foreign trade with adverse effects on its overall planning, coordination and administration on a nationwide basis. Therefore, the separation of government functions from enterprise management is the key component in the current reform of the foreign trade structure. After this separation, there will be a distinct demarcation between the functions of the administrative organs and those of the enterprises in the activities of foreign trade administration and operation. On the one hand, it will strengthen the state's administration over foreign trade, since the Ministry of Foreign Economic Relations and Trade can use the administrative and economic means at its disposal to exercise unified leadership and centralized management under specialized departments over foreign trade. A highly centralized administrative organ of the state over foreign trade will guarantee the protection of the state's overall interests and united action

toward foreigners in addition to protecting and bringing into play the initiative at various quarters. On the other hand, all enterprises engaged in foreign trade will be free from the restrictions of departmental and regional barriers, and to become truly economic entities with independent accounting, responsibility for their own profits and losses, independent operational rights, and the combination of responsibilities, rights and interests. The foreign trade enterprises of various types with their new pressure as well as new motive power and vitality, and rapidly developing in the direction of specialization and socialization, will serve as the bases for mobilizing the initiative at various quarters and enlivening the foreign trade. If we can exercise our control efficiently and effectively from the macroscopic viewpoint and open the country to the outside world and invigorate the economy at home from the microscopic viewpoint, and then let these two viewpoints supplement each other, we will certainly be able to improve the economic results and help our foreign trade make even greater contributions to the four modernizations.

In this reform, it has also been decided that the system of import and export agency will gradually become the basic form of our foreign trade operations. After the introduction of this system, the units for the profits and losses. This will be a complete reversal of exclusive handling of imports and exports by the foreign trade departments, when production and marketing could not come face to face with each other. The new system will help eliminate the bureaucratic style in foreign trade and set right the industry-foreign trade relationship so that the economic interests of the export companies and the enterprises will become identical. They will then have a common concern for production and foreign trade growth. Practice has proved that only through a true combination of foreign trade and production can we truly solve the problem of production being divorced from marketing, mobilize the initiative of the production enterprises, improve the quality and increase the competitive power of the export commodities to meet the requirements of the international market. In imports, the consumers will be responsible for their own profits and losses, and the prices will be linked with the international market. This will facilitate economic accounting and encourage the use of home-produced goods resulting in foreign exchange savings. After the introduction of the agency system, except for those commodities transacted in huge lots and the complete plants, for the handling of which the state will designate the relevant companies, most commodities can be handled by the agents chosen by the consumers themselves, while some enterprises with foreign trade privileges can even handle the transactions themselves. This will lead to competition among the foreign trade enterprises and such competition will induce the foreign trade companies to improve their services to the production enterprises and the consumer units. They will also promote the combination of industry and foreign trade and of technology and foreign trade and play a positive role in accelerating the development of our foreign trade and promoting our technical progress.

## FOREIGN TRADE AND INVESTMENT

### COUNTRIES PROVIDING ADVANCED TECHNOLOGY TO GET MORE BUSINESS

Beijing GUOJI MAOYI [ INTERTRADE ] in Chinese No 7, 27 Jul 84 pp 39-40

[Interview with Department Chief of the Ministry of Foreign Economic Relations and Trade: "The Prospect of China's Development of Technological Trade"]

[Text] This journal's correspondent has recently visited the relevant department chief of the Ministry of Foreign Economic Relations and Trade in connection with the question of China's development of technological trade with the various countries of the world.

In the words of this department chief, the open door economic policy being implemented in China for development of technological trade with the various countries of the world, for enhancement of set progress and for promotion of economic construction, is a long-term policy. Although China is rich in natural resources and plentiful in manpower, with a fairly sound industrial base and an advanced world level in some technological fields, the country still lags behind by and large as compared with advanced world levels. Particularly noteworthy is the vast number of small and medium enterprises that are urgently in need of technological reform. It is, therefore, necessary, through technological trade, to draw in advanced technology and technological equipment in order to speedily catch up with the world's new technological revolution. Over the past years, the enterprises and corporations of many countries in the world have transferred to China some of their advanced technology or have sold to China some of their products at the same time, thus economically acquiring substantial benefits. Moreover, they have had good intentions of going one step forward in developing technological trade. We firmly believe that the entrepreneurs of all countries in the world will treasure business opportunities and enthusiastically develop technological trade with China. For this reason, technological trade founded on mutual needs and common benefits has a very bright prospect of development.

To the questions raised by this journal's correspondent the responsible department chief gave the subsequent answers.

QUESTION: What are the principal fields of China's development of technological trade?



ANSWER: The fields of China's development of technological trade are very vast and wide. In 1984, it was estimated that contacts in connection with 1,000 projects would be established successively with enterprises of the various countries, and that business contracts for those projects could be signed in a timely manner amidst competition. The principal fields are: energy exploitation and comprehensive utilization, including hydroelectric resources, coal, sea and land petroleum prospecting and exploiting; petrochemical industry and fine chemicals industry, particularly high-potency and low-toxicity pesticides, engineering plastic products, production of compound fertilizers; smelting and manufacturing of high-quality alloy steel and specialty steel; exploiting, smelting, and processing of nonferrous metal, as well as utilization of rare-earth elements; microelectronic technology and communication; machinery manufacturing; raw and processed materials industry, daily consumer goods industry, light and textile industries, foods industry, and household electrical appliances, etc. The major emphasis is import of applicable advanced technology and manufacturing skills. And to this must be added simultaneously a selective import of some complete sets of equipment, such as equipment for excavation of coal on a grand scale, nuclear power plants, broadcasting and communication facilities, high-tension power transmission and transformation equipment, etc. The above projects are largely projects for restructuring existing enterprises, with the exception of only a few new projects.

QUESTION: What are the key patterns to be adopted for development of technological trade?

ANSWER: The patterns for development of technological trade can be flexible and diversified. The pattern of permits governing patents or specialized technology commonly used in the world will play a leading role. In addition, there are cooperative production, advice and consultation, technological service and many other patterns. Whatever be the patterns of development, we are all willing to accept them, as long as they bring economic benefits to both sides on the basis of equality and cooperation.

QUESTION: What are China's policies for encouragement of technological trade?

ANSWER: China has already promulgated a patent law which will go into effect 1 April 1985, thereby legislatively solving the issue of protection of technology property rights. China is holding discussions with many countries on tax-revenue agreements and investment-protection agreements, thus creating favorable conditions for further development of technological trade.

To encourage development of technological trade, the state has provided the domestic technology-importing enterprises with a priority guarantee in the area of funding and with preferential treatment in the area of repaying enterprise loans and paying taxes. The foreign enterprises that have

transferred their patented technology and specialized technology to us are entitled to tax-reduction treatment in the income they receive from utilization fees for special permission rights in accordance with relevant stipulations. Certain advanced technologies that have been transferred to us under preferential conditions are entitled to tax-exempt treatment after investigation and approval.

Technological trade is sometimes accompanied by other commodity trade. This means, for example, providing us with what we still cannot manufacture--components, apparatus parts, or primordial raw and processed materials. The foreign enterprises which supply technology will be provided with more business opportunities in accordance with actual needs and on the basis of equality and mutual benefits.

Foreign enterprises which have invested in China will be provided with more favorable conditions in the domestic sales market if they supply advanced technology.

QUESTION: What are the countries listed as principal targets of China's development of technological trade?

ANSWER: Statistics over the years indicated that China had traded most heavily in technology with Japan, the United States, the FRG, France and Britain. The dollar amount in contracts signed with these countries accounted for 80-90 percent of the total dollar amounts in all contracts signed, of which Japan played a most prominent role, accounting for as much as 50 percent. In long-term technological trade, we highly treasure the establishment of stable and friendly relations of cooperation with the above-mentioned countries, and we hope to be able to go one step forward in developing such relations of cooperation. Nevertheless, we are also keenly aware of the fact that each and every country has its own specialties and peculiarities. For example, some countries in West Europe possess a vast number of small to medium enterprises whose technology and equipment could probably be more suitable to the needs of technological reform of China's enterprises. Therefore, we cherish the hope of developing technological trade with them. Over the last 2 years, there has also been a trend of steady upswing in our technological trade with some West European countries, and there has also been a new development in our technological trade with some East European countries.

QUESTION: Does China's development of technological trade also include development of technological exports?

ANSWER: Experiences of the various countries have shown that a country cannot be fully independent in developing its economy, and that it needs economic and technological cooperation with other countries. For a relatively long period of time to come, China will remain a major technology-importing country. China, however, possesses a solid industrial base, and it has also reached a considerable S&T level. Already we have transferred a few

technologies to some developed countries. And many a technological field may have some advantages to the developing countries. The development in export of technology, though just taking off, can be expected to achieve relatively substantial progress in the days to come.

QUESTION: How is China running its technological trade?

ANSWER: China is a country of socialist planned economy, in which technological trade is incorporated into state plans. The provinces and municipalities which have been authorized to expand sovereignty in foreign economic relations and trade must also bow in obedience to the guidance of state plans.

Foreign exchange funds are arranged in compliance with state plans. Foreign exchange funds are used under the supervision and control of the General Administration of Exchange Control.

The Ministry of Foreign Economic Relations and Trade is responsible for organizing technological trade and for coordinating and supervising its implementation. It represents the government in examining and approving technological trade contracts and in supervising the fulfillment of contracts. It is entrusted by the state with the task of drawing up legal documents relating to technological trade.

12315

CSO: 4006/31

## FOREIGN TRADE AND INVESTMENT

### IMPORTS FROM NORWAY DOUBLE IN 1984

Oslo AFTENPOSTEN in Norwegian 28 Feb 85 p 18

[Article by Gunnar Filseth: "China Exports Doubled to 579.3 Million Kroner"]

[Text] Peking, 27 February--Norwegian exports to China are increasing substantially and showed an increase last year of over 100 percent. Peking's new reform measures open up more possibilities for exports but simultaneously increase the competition, and new problems enter into the picture.

Norwegian exports to China reached 579.3 million kroner last year--an increase of 101 percent over the previous year. In addition, there were sales of used ships worth 63.9 million kroner. If both categories are combined, the increase was 110 percent relative to 1983.

Sales of iron and steel constitute the greatest advance: from 26.9 million kroner in 1983 to 144 million kroner--an increase of 434 percent. In December alone, Norwegian Iron Works made deliveries worth 54 million kroner, according to the trade report for 1984 which now is available.

Art objects are the largest Norwegian export item and sales show an increase from 55.8 to 168.6 million kroner. Exports of machinery, equipment and finished goods also have increased by 100 million kroner, or nearly 100 percent. This includes, among other things, ship equipment, data processing equipment, communications equipment and machines for plastic production.

A series of Norwegian businesses presently are negotiating for various types of cooperative projects with the Chinese, including among others, licensing and joint-production. Norsk Hydro is among the entities which are interested in expanding their China involvement; both the production of art objects in China and oil exploration off the coast are possibilities.

China's "opening to the West," which had a small breakthrough last year, now affords greater opportunities in the China market. At the same time, problems are as great as before, states export agent Bjorn Bjornsen in Peking. Under the new guidelines for decentralization of the economy, many Chinese concerns now can enter into foreign contracts on their own. Previously it was necessary to go through central authorities. This makes it more difficult than previously to obtain an overview of the possibilities which are available.

Simultaneously, our competitors are now stronger than previously. The Western industrial countries and Japan are in the process of greatly increasing their efforts to obtain a portion of the new opportunities, Bjornsen states.

Within the area of shipping, the Klaveness Group recently has signed a contract with China's nationalized shipping company for a pooling arrangement for a joint effort on offering services to other countries. Each of the parties will put two bulk container ships of the Panamax type in the 66,000-ton dead weight category into the pool, but the cooperative venture has not yet commenced operations.

This will be the first pooling agreement which the Chinese have entered into with a Western shipping line. Other Norwegian shipping companies are in the process of negotiating similar arrangements. A series of Norwegian shippers presently are studying offers for participating in constructing ports in China--terminals for both loading and unloading. The Chinese prefer primarily Norwegian-Chinese projects involving joint investment and operation of the installations. The Norwegian shippers are seen as recovering their investments in the form of port fees.

It does not appear from the Norwegian side that the first projects have been particularly attractive, but a series of additional ones presently are under evaluation.

12578

CSO: 3639/89

FOREIGN TRADE AND INVESTMENT

HONG KONG FIRM TO COSPONSOR AUTOMATION SEMINAR

OW021612 Beijing XINHUA in English 1559 GMT 2 Mar 85

[Text] Beijing, 2 Mar (XINHUA)--The China Instrument Society and Hong Kong's Edutec International Ltd will be the joint sponsors of an international seminar and exhibition dealing with office automation, in Beijing in September this year.

This was announced by Wang Dezhaoh, president of the Chinese Instrument Society, at a reception here tonight.

He said the purpose of the seminar is to introduce to China advanced overseas automation systems and exhibit audio-visual equipment and various other types of computerised and automated office equipment used by higher-ranking decision-making and general managers of large enterprises.

Also, technical exchange sessions and lectures will be held on office automation equipment, information system designing, telecommunication equipment and data-processing systems.

The seminar and exhibition will play an important role in promoting the development of China's instruments industry, raising the automation level of offices and promoting technical exchanges between China and other countries, Wang stressed.

He extended a warm welcome to foreign technicians and businessmen to participate in the seminar and exhibition, and hold talks with their Chinese counterparts on research and production of advanced office equipment.

Also present at the reception were 400 guests, including Zhao Mingsheng, vice-minister of the machine-building industry, Zhang Jianmin, vice-mayor of Beijing, diplomatic officials and foreign businessmen.

CSO: 4020/139

FOREIGN TRADE AND INVESTMENT

JAPANESE TRANSFER FOOD PROCESSING TECHNOLOGY TO CHINA

Beijing LIAOWANG [OUTLOOK] in Chinese No 42, 15 Oct 84 p 24

[Article by Li Yuanpu [2621 0337 3184] and Yan Jingchang [7051 2533 2490]:  
"New Bridges and New Channels---On the Sino-Japanese Food Circulation and  
Development Committee"]

[Text] The RENMIN RIBAO report published in February this year about the rotting of apples in large quantities in our country after a bumper harvest has attracted the attention of the Japanese Food Circulation System Association. They made copies of this report for distribution to 180 subordinate enterprises. As they saw it, with the increase in agricultural production in China year after year, it is extremely urgent that technical transformation of food processing, transportation and storage be carried out. When the Chinese commercial food circulation delegation visited Japan in March this year, the Japanese Food Circulation System Association suggested on its own initiative the formation of a Sino-Japanese Food Circulation and Development Committee to jointly develop the Chinese food industry. A responsible person of this association said to the Chinese vice minister of commerce, Jiang Diao [1203 0431]: "People who are full surely want to eat better. This is a tremendous driving force stimulating the food industry. The Japanese food industry was developed this way."

The establishment of the Sino-Japanese Food Circulation and Development Committee has a very strong appeal to the Japanese entrepreneurs. In addition to factories of the food professions and trades participating in this committee, other enterprises in the fields of iron and steel, light metals, machinery, electronics and transportation, including more than 10 of the world's ranking large enterprises such as the Shin Nichi Tetsu and Hitachi have also joined.

Yoshihiro Inayama's Demand of the Japanese Side

Comrade Jiang Diao told the reporters: Our country's edible oil has many impurities, the kitchen in our home has been blackened by oil smoke. He thought that we must keep a clear head about the backward state of the food processing industry in our country and the serious challenge it now faces, and that we should not be satisfied with the low standard of "It will do as long as we have grain and vegetables to eat and having fish and meats means improvement of the standard of living." At present, many countries are producing

several kinds of flour and have realized "four separate's" in processing edible oil (eliminate color, smell, impurities and harmful matters); but our country has only two kinds of flour and not a single city can produce "four separate's" oil. Consequently, some farsighted entrepreneurs in Japan are very interested in developing Chinese and Japanese food.

To this end, the Sino-Japanese Food Circulation and Development Committee recently called its first meeting in Tianjin at which a representative from the Japanese side conveyed a four-point demand to committee members of the Japanese side from prominent Japanese entrepreneur Yoshihiro Inayama who is known as Japan's "economic prime minister": (1) upholding friendship first and engaging in sincere cooperation; (2) opposing the pure viewpoint of buying and selling--enterprises which stressed only making money but not friendship should be expelled from the committee; (3) further expanding this institution; and (4) exerting efforts to make cooperation between both sides a success.

#### Avoiding Unrealistic Importation, Reducing Duplications in Importation

To develop the food industry faster, it is primarily necessary to rely on technological progress, planning and technical transformation by stages. Judging from the actual conditions in our country, we must first of all push forward the technical transformation of the basic raw material, import the necessary advanced technology and key equipment which still cannot be produced domestically for the time being and as soon as possible improve the process of increasing the varieties of flour, eliminating the washing of rice and purifying oil and fat.

Priorities should be established in order of importance and urgency in importing technologies and equipment to avoid unrealistic imports and reduce duplications in imports to the greatest extent possible. The functions of the Sino-Japanese Food Circulation and Development Committee is to organize the commercialized food industries in various localities and make overall arrangements so as to achieve the best results in importing technologies and equipment.

Furthermore, importing equipment and technology should be done at the same time. While one-time contracts for a single items should be avoided, a series of long-term contracts has to be signed. Beijing, Shanghai, Tianjin and Harbin have all imported beancurdmaking machines from Japan, with the exception of Shanghai, others cannot achieve normal production at present, the common cause being that they have not imported the technology of manufacturing the coagulating agent.

At this meeting held in Tianjin, the Japanese side had slackened its attitude somewhat toward the issue of selling technology. Japan's techniques of producing monosodium glutamate are advanced and superior in quality. In the past they only promised to sell us the entire set of equipment. This time, a responsible person of the Japanese Ajinomoto Corp indicated to Beijing Municipality that they are willing to provide the advanced technology to the Beijing Gourmet Powder Factory. Jiangsu and Shanghai will also import from Japan



respectively two sets of fast frozen vegetable processing equipment with an annual production capacity of 1,000 tons and one 500-ton low-temperature warehouse together with the whole set of technology at the same time.

Judging from the whole situation, although our country's food industry is comparatively backward, we should not underestimate our own capabilities. We still have our own advantages. If we can use these advantages to get our products and techniques into the international market, we will be able to accumulate part of the funds needed for importing technology.

12662

CSO: 4006/225

FOREIGN TRADE AND INVESTMENT

BRIEFS

HONG KONG METALS TRADE FAIR--Beijing, 1 Mar (XINHUA)--A Chinese trade fair of nonferrous metals will be held in Hong Kong from 18 to 24 March, according to the China National Nonferrous Metal Import and Export Corporation today. The fair, sponsored by the corporation and the China Resources Metals and Minerals Company of Hong Kong, would focus on export of tungsten, tin and antimony products, and import of certain nonferrous metals. There will also be talks on long- and short-term cooperation between China and foreign interests, and on the possibility of establishing long-term, direct trade relations. Businessmen from the United States, Japan, Britain, France, Singapore, and Thailand, as well as from Hong Kong and Macao will also attend the fair, according to Zhao. [Text] [Beijing XINHUA in English 1458 GMT 1 Mar 85]

THAI-PRC TRADE--Bangkok, 1 Mar (XINHUA)--Trade volume between Thailand and China increased from \$US23 million to \$U.S.330 in the last 10 years, the local English newspaper, THE NATION REVIEW, reported today. In a report in relation to the anticipated state visit to Thailand by Chinese President Li Xiannian, the newspaper noted that in the last 10 years the two countries have started 127 cooperative projects. Since 1980, the two countries have entered into a new stage of economic cooperation of joint ventures, co-production and provision of labour services, the report said. Letters of intent or agreements have so far been signed on 20 such projects, it added. The report said that to further promote their economic cooperation, Thailand and China will sign agreements on protection of investment and avoidance of double taxation during Li's visit. [Text] [Beijing XINHUA in English 1318 GMT 1 Mar 85]

SWEDISH ELECTRICAL EQUIPMENT PRODUCTION-LINE--Ifo-Electric of Bromolla [Sweden], which is a subsidiary of Eurokoncernen, has reached an agreement with a Chinese firm to establish a production line for pressing of high-voltage insulators in central China. The production line is being organized in a plant in Xian, which will then be China's most modern plant in the production of insulators. The order is valued at 30 million kronor, and covers licensing rights, planning, training, as well as start-up operation until fall of 1987. The project is being undertaken in cooperation with an Austrian firm. [Text] [Stockholm SVENSKA DAGBLADET in Swedish 1 Mar 85 Sect III p 1]

NORWAY SUPPLYING HEP TURBINES--On Wednesday, Kvaerner Brug signed the first portion of a China contract worth 140 million kroner. This is the largest single export contract up to now which a Norwegian concern has had with China. Aside from the offshore field, it also is Kvaerner's largest foreign contract in many years. Kvaerner is to deliver, and to some extent, jointly produce four-150 megawatt turbines for one of China's largest hydroelectric plants. The concern has received a subsidy of 10 million kroner from the Norwegian authorities. [Text] [Oslo AFTENPOSTEN in Norwegian 28 Feb 85 p 18] 12578

NORWEGIANS TRANSFER ANTI-FIRE TECHNOLOGY--China has signed an agreement for the use of Norwegian technology for its own production of so-called inert gas systems--equipment for fighting fires and explosions on board tanker ships. The agreement has been signed with Moss Rosenberg Shipbuilders. Delivery of parts from Norway can occur in connection with the production in China. The agreement also includes training of Chinese personnel in Norway. [Text] [Oslo AFTENPOSTEN in Norwegian 28 Feb 85 p 18] 12578

CSO: 3639/89

## SPECIAL ECONOMIC ZONES

### ADVANTAGES OF PUBLIC BIDDING IN CONSTRUCTION PROJECTS

Shenzhen SHENZHEN TEQU KEJI [SCIENCE AND TECHNOLOGY OF SHENZHEN SPECIAL ZONE] in Chinese No 4, Oct-Dec 1984 pp 19-21

[Article by Zheng Jianguang [6774 1367 0342] of Capital Construction Office of Shenzhen Municipal Government: "A Preliminary Analysis of Inviting Construction Bids and Its Economic Results--First Installment of an Initial Study in the Experiences of Shenzhen Special Zone in Capital Construction Management"]

[Text] Editorial note: Shenzhen Special Zone has captured world attention, and "Shenzhen speed" has gain nationwide recognition. In the construction of the special zone, Shenzhen's capital construction front has taken the lead in carrying out a series drastic reforms and gradually gained the experiences in construction that yields greater, faster, better and more economic results. Comrade Zheng Jianguang has written a series of articles introducing to the readers Shenzhen's effective methods and experiences in capital construction, including the construction projects of an exploitative nature, the commercialization of construction products, opening the market for the building industry, inviting and submitting construction bids, specialized supervision over the economy and technology in capital construction and other management experiences. These articles will be carried in this journal beginning this issue.

The system of inviting and submitting construction bids has been much admired by people in the construction circles at home and abroad because of its economic results as shown by the shorter construction period, lower construction costs and improved quality. In May last year, the Guangdong Provincial On-the-Spot Meeting for Inviting and Submitting Capital Construction Bids was held in Shenzhen and it was decided that this experience be popularized throughout the country. On his lecturing tour to Guangdong last year, Professor Qian Jiaju [0578 1367 7467], a well-known economist in our country, also came to Shenzhen for a brief inspection and investigation, and expressed the opinion that the experiences of inviting construction bids deserve to be

popularized. In December of the same year, the China Construction Engineering Corporation held its fourth director board meeting also in Shenzhen. In his report to the meeting, Comrade Xiao Tong [5135 2717], Vice Minister of Urban and Rural Construction and Environmental Protection, pointed out: "The experiences of Shenzhen in construction and development have many facets, but what has left the deepest impression is the comprehensive development according to the master plan of the city, the inviting and submitting of bids, the organization of social supervision over the quality of work and the elimination of "eating from the same pot" in the system of distribution in order to turn the building trade into an important industry that is capable of absorbing extensive social funds and providing huge accumulations, and is full of vitality. Here, successful experiences have been gained in making bold reforms, in invigorating the building industry and in establishing a special economic zone."

Then how were the experiences in inviting and submitting construction bids gained and enriched? Where was the success shown? And how should the significance of inviting construction bids be assessed? This article will attempt to discuss these questions one by one.

#### Origin and Development of System of Inviting Construction Bids

No innovation can be plain sailing all along, and the system of inviting construction bids in Shenzhen has likewise traversed a zigzag course. In May 1980, the central authorities decided that a special economic zone be established in Shenzhen. To import foreign funds, advanced technologies and advanced management methods more quickly, it was found necessary to create a pleasant environment for investments by foreign traders. Speed in capital construction thus became a major issue in Shenzhen. However, the same old method of administrative control was still used in the control of Shenzhen's capital construction. This management method has many defects as mainly shown in the long construction periods, the low proportion of completed projects, the high construction costs and the inferior quality. One of the main causes of these defects was that the construction projects were assigned to the building enterprises through administrative channels and competition was nonexistent. Thus the building enterprises had their "iron rice bowls" and could "eat from the same pot." If such conditions were not changed, how many years would it take to complete the construction of the special economic zone?

It was the construction of the International Commercial Mansion that touched off the important policy decision of the Shenzhen capital construction department to invite bids. This project started in November 1980. At first, a certain construction company was designated for this job. The construction cost quoted by this company was 580 yuan (renminbi) per square meter and the construction period had to be 2 full years. The investors were unwilling to accept these terms. Since the foreign traders had their say in the matter, the construction contract was left unsigned for more than 8 months.

At that time, the leaders of the capital construction department had just returned from an inspection trip in Hong Kong where the advanced methods of capital construction management had widened their field of vision. They fully realized that the use of administrative means in choosing the work force would produce poor, slow and wasteful results, and that along with the development of the special zone and the growing scale of capital construction in future, the continued use of administrative means would be highly undesirable.

In July 1981, the municipal construction department finally made a bold decision: the construction project of the International Commercial Mansion should be contracted to others through public bidding. This decision produced strong repercussions and a great deal of clamors, since many people held different views. The construction company originally designated for the job went everywhere to lodge its protest and the municipal construction department was under severe pressure. However the municipal government boldly asserted itself and resolutely supported the decision despite all oppositions! In the last 10 days of August, the municipal construction department formed a special leading group to determine on the choice out of the four bidding construction companies. Finally, the First Metallurgy Construction Company's bid was accepted. This bid was the lowest (387 yuan per square meter) and the construction period was the shortest (18 months). In April 1983, this company completed two blocks of buildings and handed it over to the investors for use 2 months ahead of schedule (in altogether 16 months) and the quality of work was gratifying. Compared with what was previously arranged through administrative channels, the total construction period was 8 months shorter and the investment 9.46 million yuan less. The tremendous superiority of the bidding system was thus fully demonstrated.

The method of inviting bids was gradually popularized by the municipal construction department after its success in the first period. The work force also gradually became accustomed to this system, and the leadership over public bidding was gradually strengthened. In July 1982, the awarding of contracts through bidding in all construction projects became an established system which has been firmly upheld all along.

#### Economic Results of Construction Bids

The economic results of construction bids are very impressive as shown in the following:

1. Lower construction cost. According to statistics, for small projects under 1 million yuan in investment, the construction cost was reduced by about 8 percent; for large and medium-sized projects above 1 million yuan, the cost was reduced by about 15 percent. For the 5,000-ton cold storage completed at the end of 1983, the production department originally had Estimate A for 11,965,800 yuan and Estimate B for 11,786,500 yuan, and the building unit requested a further addition of 5 percent to these estimates. At the public bidding, Huaxi Enterprise Company of Sichuan got the contract for a total cost of 7.5 million yuan. Compared with the original administrative arrangement, the total cost was more than 4.23 million yuan less, a reduction of 35.9-40.9 percent.

2. Shorter construction period. There was generally a reduction of about 20 percent, and the so-called "beard-growing construction jobs" have been basically eliminated. In building highrises, it formerly took at least some 20 days to complete one story. Now, it generally takes 6-7 days. The construction period was 8 months for an eight-story residential house and 6 months for a six-story one. Now it is only 125 days for one of eight stories and 110 days for one of six stories. The building of three blocks of eight-story buildings with a total floor space of 18,000 square meters, including the main structure and the inner and outer brick walls was contracted to the Jieyang County Construction Company, and each story was completed in 5 days. Ordinary factory buildings, such as that of the Yinle Aerated Water Plant with an annual output of 3.3 million crates (24 bottles in one crate) and that of a concrete mixing plant of 150,000 cubic meters, were completed and put into operation in 4 to 7 months from the day of ground breaking.

3. Guaranteed quality. The contracts for construction bids clearly stipulate the quality standards, and failure to meet these standards will lead to penalties even to the extent that the work has to be done all over again. In this event, the building unit will bear the cost of materials and other expenditures. This will induce the building units to improve their management and the quality of work. In the past 2 years, among all the projects of excellent workmanship, 90 percent of them were contracted through public bidding. Because of the competition in bidding, the enterprises are encouraged to show their "competitive products" in order to enhance their social prestige.

These three factors have clearly shown the economic benefits in inviting construction bids. However, since the economic benefits of the building industry have to be passed on to other trades, we must, therefore, pay attention to the results of business operation when the projects have been completed and put into operation. Now, let us cite one example for illustration. The Yinle Aerated Water Plant is an enterprise of cooperative production between the Shenzhen Municipal Canned Food Factory and the U.S. Pepsi Cola International Company, Ltd. The U.S. side invested \$6.4 million and the plant had two production lines: one for canning and the other for bottling. Construction of the plant started in August 1981 and was completed in January 1982. The entire construction period was only 5 months. In 1982, the total industrial output value was 7.9 million yuan, and the output value per worker was 75,000 yuan. We gained 470,000 yuan in profits and 700,000 yuan in taxes. In 1983, the total industrial output value was 11 million yuan, the output value per worker was 98,000 yuan and we gained 540,000 in profits and 1 million yuan in taxes. It is not difficult to see that these economic benefits were predicated on the early completion of capital construction projects. If the construction period is too long, the income of the state and the collective will be greatly reduced. Therefore, speed in capital construction has a close bearing on the investment returns.

#### Construction Bidding and Enterprise Management

Bidding on contracts has brought profound internal changes in the enterprises, promoted their comprehensive internal reform, and improved their relationships

in various aspects. The reason is that successful bids are predicated on shorter construction periods, lower construction costs and better work quality. Without reform, it will be hard to complete the work according to the quality standards stipulated in the contract. In other words, if they do not struggle for survival and development, they will be eliminated in the process of competition.

For Youyi Mansion located in the Luohu district, the first stage of construction covered four tower buildings of 23-25 stories with a total floor space of 26,600 square meters. Guangdong No 4 Construction Company was the successful bidder. The construction period was 18 months for two of the buildings and 20 months for the remaining two. Later, in compliance with the investors' requests, the construction periods were shortened to 15 and 16 months respectively. In the past, it was impossible for the company to complete such an arduous task. In 1981, when it undertook the construction of a six-story residential building, and the volume of work was only one-tenth of the present one, it took 18 months to complete it. To make its bid competitive, it had to carry out some reform by reorganizing and strengthening the leading body, increasing the technical personnel, reducing the administrative personnel, and so forth. An important feature of the reform in enterprise management was the thorough implementation of the system of responsibility for economic contracts whereby the economic benefits of the entire project were linked with the economic interests of each worker with "no ceiling or lower limit" on wages. These measures fully aroused the enthusiasm and creativity of the broad masses of workers in production, and, as a result, the entire project was completed and handed over to be used 3 months ahead of schedule. Furthermore, the fine quality of work was highly praised by people in the building circles at home and abroad.

According to the present situation, the significance of construction bidding as a means of reform is more deeply felt in other spheres. Its political significance is even farther beyond our imagination.

#### Basic Methods of Construction Bidding

The department in charge of municipal capital construction is responsible for inviting construction bids for the Shenzhen Special Zone. First, some provisional regulations were worked out for construction bidding in all construction projects. The procedures are as follows:

1. A leading group for inviting bids for single item projects is formed of the department in charge of capital construction in the special zone, and the construction unit [to which the completed project will belong].
2. The group in charge of bidding publicizes the invitations, giving the date of bidding and the type of construction projects, and specifying the qualifications of the bidders.
3. The leading group in charge of bidding sets the base bid.



4. The building units are registered as bidders, and the group in charge of bidding examines their qualifications.
5. The construction unit will distribute and explain the blueprints of the project under bidding, and its special characteristics and requirements.
6. The participating units will work out their own bids based on the amount of work and according to the required standards as shown on the blueprints, fill in the construction periods, quality standards and warranty terms, and then send their bids in sealed envelopes to the group in charge of bidding.
7. The group in charge of bidding will examine the submitted bids, verify and compare the terms, and choose the most reasonable bid in terms of work quality and construction costs and periods.
8. A meeting will be held for the successful bidder to be publicly announced.
9. A construction contract will be formally signed by the successful bidder and the construction unit.
10. The construction unit and the building unit will apply for the necessary construction permits and arrange for the work to be started.

#### Several Problems To Be Noted in Bidding

Shenzhen has accumulated some experiences in handling bids. However, it has also encountered problems. Based on their experiences, the following points should be carefully noted?

1. Emancipate the mind, eliminate the disruptions, and persist in the reform. Adoption of the system of economic responsibility in bidding is an important reform in capital construction management about which many people had their misgivings at first. Some of them worried about unhealthy rivalry among the building enterprises, while others were afraid of breaking their "iron rice bowls" and the lack of guaranteed income. The authorities launched three successive ideological mobilizations, summed up their experiences on two occasions, and widely publicized the superiority of the system of public bidding and their own successful experiences. From the vivid contrast between the new and old methods, they could clearly show the defects of administrative distribution and the merits of bidding in revitalizing the enterprises and making the construction project a success. They will then continue to eliminate the disruptions and strengthen their will in making reform and blazing new trails. Only thus could the system of bidding be more widely accepted and gradually popularized.

2. Pay attention to investigations and study instead of relying solely on the quoted amount in choosing the successful bidder. In inviting bids for a construction project, there are usually several, or more than 10 bids from different building units operating under similar conditions. If we

simply choose the lowest bidder, our choice may not be a correct one. In response to our invitation for bids in the construction of the 5,000-ton cold storage, four different units were hotly competing with one another. The group in charge of bidding spent half a month investigating and studying the following conditions: First, the guarantee of good quality. They found that Huaxi Company of Sichuan had built five large cold storages and won a silver state medal for one of them and citations of excellent workmanship for another two. On the other hand, the other three units had built only small cold storages. Second, the basis on which the construction period is determined. Huaxi Company had built a cold storage of similar size in 12 months, and indicated that a cold storage of this size could be completed and handed over for use in 11 months. This construction period was found satisfactory. Third, the rationality of construction cost. The bid of Huaxi Company was for 8 million yuan which was close to the base bid set by the group in charge. After certain negotiation, the amount was reduced to 7.5 million yuan which seemed to be just and fair. After repeated comparisons, it was finally decided that Huaxi Company should be the successful bidder.

3. Firmly uphold the scientific approach of seeking truth from facts and look for a reasonable bid which will result not only in savings for the investors but also legitimate profits to the building unit as a reward for its efforts. A reasonable bid is the foundation of bidding and the guarantee of its success with a direct bearing on the interests of both parties. Whenever an unduly high or unduly low bid is encountered, we should carry out scientific analyses and calculations and make reasonable adjustments so that it can be acceptable to both parties. The bid for constructing the dormitory of Shenzhen Reservoir was rather high and the bid for the public facilities of the People's Government of Baoan County was rather low. After consultation, these bids were lowered by 3 percent and raised by 2 percent respectively. For the construction period, the need for a scientific and rational approach was stressed and there was no one-sided insistence on its being as short as possible.

4. Pay attention to quality and put it to a stiff test. First, in the signed contract, it was clearly stipulated that there would be good price for good quality as well as distinctive rewards and punishments. Second, a system of strict quality supervision should be set up whereby highrises of seven or more stories will be under the unified supervision of the municipal quality supervision and checking station, and buildings of less than seven stories will be checked by the building units themselves, but subject to spot checks by the construction units. All building materials must be tested before being used. Third, should there be serious accidents resulting from poor work quality or inadequate safety measures, then, in addition to economic sanctions, administrative means will be used in replacing the work force, forbidding it from bidding for a certain period, and even pursuing its legal liability.

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### OVERVIEW OF SHENZHEN DEVELOPMENT WITH BREAKDOWN BY SECTOR

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[Article in installments by Lin Jieru [2651 3381 1172], Dong Yongqiang [5516 3057 1730] and Li Weimin [2621 0251 3046] of Shenzhen City Scientific and Technological Development Center: "Brief Introduction to Shenzhen Special Zone"]

[No 3, 1984 pp 52-53]

[Text] (V) Capital Construction

The development at high speed of capital construction has created an excellent environment for the construction of various professions and trades in the special zone and for investment by foreign businessmen. Of the capital construction projects in the special zone over several years, the most conspicuous are the high-rise buildings which rank first in the whole country in construction scale, quantity and speed in construction. The tallest building in the country at present is the "International Trade Center," a 53-story building 160 m in height, the newest construction record it set in putting up "one story in every 3 days" is second to none in the country. The high speed, high standard and high results of capital construction in Shenzhen SEZ, described as the "Shenzhen speed" of epochal character, is being followed with interest and praised highly nationwide.

#### The Rise of the New City

Shenzhen SEZ covers a total area of 327.5 sq km, 110 sq km of which can be used for construction. Capital construction in the SEZ has been in adherence to the principle of "planning one tract, developing one tract and putting one tract into operation" by concentrating all effort. Large-scale construction of the new city was first started within the limit of 31 sq km around Luohu and Shangbu. Shenzhen Township in former days had construction area of only 3 sq km, the streets were crude and narrow and the tallest structure was a five-story building. After over 4 years of construction, numerous big mansions have been completed: over 1,000 ten-story buildings now loom in the horizon with more than 70 buildings of 18 to 50 stories or more standing prodigiously among them. In over 4 years, capital construction has been completed over an area of 4.95 million m<sup>2</sup> spending a total of 2.73 billion yuan in capital construction; civilian housing of 2.12 million m<sup>2</sup> in floor space

was completed, the average per-capita living space in the special zone now comes to 7.73 m<sup>2</sup>. A total of 67 roads 90 km in length have been built initially forming a crisscross network of communications that extends in all directions. Various cultural facilities have also sprung up like bamboo shoots after a spring rain. An embryonic form of a modernized city is taking shape in the small border town of olden days.

#### Six Functional Districts

After over 4 years of construction in line with the overall planning of the SEZ, six functional districts of industry, commerce, housing, tourism, warehouses and culture and education have initially taken shape in keeping with city complex layout.

**Industrial District:** Planned construction of 10 industrial districts each with a suitable specialty. Over 4 years, forces have been primarily concentrated on the construction of five industrial districts in Shekou, Shahe, Shangbu, Bagualing and Shuibei. The two comprehensive industrial districts in Shekou and Shahe, where more than 20 factories have been put into operation, have begun to take shape. The China Merchants Steamship Co and the Overseas Chinese Investment Enterprise Company are in charge of the development there. The Shangbu electronics industrial district has also begun to take shape, nearly 60 major electronics enterprises of the SEZ are concentrated in here. In the Shangbu light industrial district and the Bagualing comprehensive industrial district, nearly 30 standard large buildings and associated facilities have been completed and nearly 10 factories have been put into operation. Capital construction is also underway in the Shuibei hardware and machine industrial district and Fuqueling industrial district in Nantou.

**Commercial District:** Plans have been drawn to set up commercial, financial and trade institutions in a concentrated way in Luohu, Shangbu and Nantou sections to form bustling and busy commercial downtown areas. The 2-sq km Luohu commercial district has begun to take shape. Here, from the ground floor to the fourth floor of the high-rise buildings are supermarkets, commodity exhibition centers and financial institutions and so forth. For example, the biggest Huanqiu Commercial Center and the International Bazaar here have become the busy commercial districts in the SEZ. The various types of bazaars on Heping Road and the small industrial products market on Binhe Road offer a superb collection of beautiful items. The Huacheng tourist district now under first-phase construction will build the old street in the old city into a tourist commercial district with a distinguishing feature of oriental culture. The first phase is expected to be completed by the end of 1985.

**Housing District:** Of the 14 public districts or commercial and housing districts under planned construction, 10 subdistricts have been completed or partially completed including Binhedong, Xiabu Chaobei, Mutoulong, Huaxin, Yuanling, Guimuyuan, Donghu, Lunan, Lubei and Zhubian totaling 10,700 housing units and covering 934,000 m<sup>2</sup> in floor space. The other five housing districts under construction are Xiabu Chaonan, Binhexi, Huangbeiling, Wenjindu and Baishaling.

Tourist Districts: Eight tourist spots have been completed, such as Xili Lake and Xiangmi Lake vacation villages, Yinhu and Shiyanhu, they are all famous scenic tourist spots equipped with facilities. Six other tourist districts are under construction.

Cultural and Educational Districts: Of the eight key construction projects, a great part of the Shenzhen University project has been completed, the others are expected to be completed this year or by next year.

Project	Parameter	Construction floor space	Stories/seats	Planned completion date
Science hall		12,000	9	June 1985
Library		13,000	6/330	End of 1984
Museum		13,600	4	February 1985
Gymnasium		210,000	3/6,500	October 1985
Opera theater		16,000	3/1,600	End of 1985
Shenzhen University		54,500	24	August 1984
TV station		16,500	15	October 1986
News center		57,800	28	End of 1985

Warehouse Districts: The Sungang and Qingshuihe large warehouses have been developed primarily in recent days for transit storage of export items by the Shangbu industrial district, eastern areas and foreign trade departments. A plan has also been made to build warehouses in Futian New City, Mawan and Yantian. These projects will take up 5.1 sq km.

Key Projects: The doubled-track electrification project of the Guangzhou-Shenzhen Railroad in the city limit is being planned. The construction of a nuclear power station with an installed capacity of 1.8 million kW in Dayawan in the eastern part is being stepped up, and the Nanhai petroleum city is also being developed over an area of 38 sq km in Nantou district in the western part. The first-phase construction project for the Shenzhen helidrome has been completed. The planning for Shenzhen international airport is underway, it will be the biggest airport in Asia.

Designing and Construction: The designing units under the city now include the city construction designing institute, the city architectural science research center, and the city construction counseling and advisory company and so forth with more than 400 engineering and technical personnel. In recent years, they have undertaken designing of more than 2,000 large and medium construction projects involving a grand total of over 10 million m<sup>2</sup> in designed floor space and a total investment of over 2 billion yuan. The construction contingents have come from more than 100 construction units in various localities totaling over 100,000 workers.

## (VI) Real Estate

The flourishing real estate business and the rise of large numbers of commercial buildings and housing units have provided a favorable investment environment for investors from all quarters and also offered more comfortable living conditions for the people in the SEZ. Commercial buildings and houses of new and novel designs, equipped with facilities and of unique character have added new colors to the special zone.

Since the establishment of the Shenzhen City Real Estate Corp in 1980, the real estate business in Shenzhen SEZ now has a history of over 4 years in business and has in the course of developmental operations gradually become an economic entity of multiple development with emphasis on real estate. Because Shenzhen SEZ has applied favorable policies to investors in many ways, it now has a strong appeal to the real estate enterprises in Hong Kong that have been troubled by the economic recession of the West and the real estate slump in recent years. In the past 4 years or more, the real estate corporation has imported HK\$1.01 billion in foreign capital, invested HK\$780 million and carried out construction over 960,000 m<sup>2</sup> in floor space without spending even a penny from the state. It has also delivered 47.2 million yuan in RMB and over HK\$100 million in profits to the state. In addition, it has also established a set of operational and management methods and experience:

**Land Capitalization:** In accordance with the principle of compensating for the use of land, the land use fee is converted into currency capital or materialized capital to join in partnership with the currency capital of foreign businessmen to engage in cooperative investment and share profits.

**Product Merchandising:** Obtaining construction funds through cooperation or joint ventures with foreign businessmen and recalling the land use fees and construction investment together at the time of sale or leasing the buildings.

**Management Modernization:** Management methods such public bidding contract and others are to be implemented from construction and designing to ordering materials and equipment in large quantities.

**Internationalization of Operations:** Absorbing construction funds from among foreign businessmen, purchasing various types of building and decorative materials primarily from overseas market, concentrating on foreigners, overseas Chinese and compatriots from Hong Kong and Macao as the objects of sales of commercialized buildings and forming an extroverse-type operational institution and system.

[No 4, 1984 pp 44-45]

## [Text] (VII) Communications and Transportation

After 5 years of construction, Shenzhen SEZ has become a land-sea-air three-dimensional network of communication lines.

The Guangzhou-Shenzhen railroad runs across Shenzhen and the Shenzhen railroad station is the gateway to Shenzhen on land; it is 147 km from Guangzhou in the

north and 32 km from Kowloon in the south. The double-tracked electrification project of the Guangzhou-Shenzhen railroad has already begun and a modernized Shenzhen railroad station will also be built. This will greatly increase the transport capacity of the railroad station. The annual transport volume of the railroad station will rise from the present 8 million person-times to 36 million person-times. Roads in the city limit have formed a network of communication lines extending in all directions. Buses in the city are now operating nearly 10 routes. The main bus lines leading to the interior are the Shenzhen-Guangzhou line and the Shenzhen-Shantou line. The construction of expressways linking Shenzhen, Guangzhou and Zhuhai will soon be underway.

The Chiwan deep-water harbor is Shenzhen's gateway to the sea. Its 8-meter deep 10,000-ton class berth can handle unloading of 20,000-ton class cargo ships from any port in the world. To cope with the needs of developing the Nanhai oilfield, preparations are being made in Shenzhen for the construction of 50,000-100,000-ton class wharves. To link Shenzhen with coastal countries in the world, Shenzhen has built up a small oceanic fleet.

Shenzhen SEZ is also actively developing civil aviation. The Haiyang helidrome in Nantou of Shenzhen is energetically providing services for the petroleum exploration in South China Sea. It will also develop small aircraft operations. The construction of the Shenzhen international airport is being planned in full swing.

#### (VIII) Finance and Banking

Shenzhen SEZ is better known in the country for maintaining a high rate of capital fund utilization, a fast turnover rate, an extensive sphere of credit and high economic results. The banks in the SEZ are exercising more control and playing a bigger role over both the macro-economy and the micro-economy. In recent years, it has energetically developed banking institutions with foreign capital and imported large amounts of foreign capital for the development of the special zone. Shenzhen at present has two banks with foreign capital, nine representative offices of foreign-capital banks and one insurance company of foreign capital. A multilayer banking system with the SEZ Central Bank as the center and under its guidance is gradually taking shape in the SEZ.

#### (IX) Commerce

Commerce in Shenzhen SEZ has adopted various flexible measures and varied forms of activities to import foreign capital and at the same time earnestly strengthened internal integration by making full use of the advantages in various localities throughout the country. As of now, the city's financial and trade departments have imported more than \$HK700 million in capital from 7 countries and regions, established more than 50 commercial enterprises with foreign businessmen under joint ventures, engaged in joint management respectively with various central departments and 14 provinces and cities and set up over 90 commercial enterprises. Various types of commercial corporations have sprung up like bamboo shoots after a spring rain. The number of networks and outlets have grown to over 2,000, nearly 31 times greater than in 1979. These networks

and outlets include bit comprehensive bazaars, magnificently decorated and outfitted with advanced equipment, covering several thousand square meters in floor area and handling thousands of kinds of commodities and also small stores covering an area 3-5 square meters; they also include self-service supermarkets and exhibition sales departments taking purchase orders after examining samples on display. Many commercial firms have developed toward multi-faucent operations. The channels of commodity circulation have extended in all directions with abundant supply of goods. Shenzhen has developed trade contacts with various provinces and cities at home and more than 10 countries and regions including the United States, Japan, the Netherlands, Denmark and Singapore.

#### (X) Culture, Education, Science and Technology

Education in Shenzhen SEZ has developed rapidly with institutes of higher learning growing out of nothing. Shenzhen University started enrolling new students in the autumn of 1983. Currently it has 6 departments--English, law, economic management, architecture, Chinese and electronics--and 10 specialties. It has also set up the Shenzhen Institute of Education and a television university. The number of intermediate specialized schools has increased from 1 to 5, and the number of middle schools and primary schools has increased to 11 and 58, respectively.

There are more than 8,800 intellectuals in the whole city, of whom more than 30 hold senior job titles (not counting those stationed in units outside of the city), more than 1,100 have intermediate job titles and more than 4,700 scientific and technical personnel hold primary job titles. The scientific research institutions and management departments include the city Scientific and Technological Development Center, the city Scientific and Technical Association, the city Architectural Science Research Center, the Agricultural Science Research Center, the city Architectural Designing Academy, the Electronics Research Institute, the Scientific and Technological Information Research Institute, the New Technology Research Institute, the Metrological Institute, the Horticultural Research Institute, the Agricultural Machinery Research Institute, the New Energy Designing Research Institute and the Structural Engineering Research Institute of Shenzhen University. The SEZ has established more than 30 specialized natural science societies.

Cultural undertakings in the SEZ are rising vigorously. Among those set up are a number of arts organizations, the Shenzhen TV station and more than 10 newspapers and periodicals including the SHENZHEN TEQU BAO [SHENZHEN SEZ NEWS], TEQU GONGREN BAO [SEZ WORKERS DAILY], SHENZHEN QINGNIAN BAO [SHENZHEN YOUTH NEWS], TEQU DANG DI SHENGHUO [SEZ PARTY LIFE], SHENZHEN TEQU KEJI [SCIENCE AND TECHNOLOGY OF SHENZHEN], SHENZHEN DAXUE XUEBAO [SHENZHEN UNIVERSITY JOURNAL], TEQU WENXUE [SEZ LITERATURE], TEQU JINGJI [SEZ ECONOMY], YINJIN [IMPORT], and HAISHI HUA [3189 4258 5363 SEA-STONE FLOWER].

Tremendous progress has also been made in public health and sports in Shenzhen SEZ. The number of hospitals has increased from one to 11 and the number of hospital beds has also increased from 162 to 800. Medical equipment is moving gradually toward modernization. Mass sports activities are spreading extensively in the SEZ. Six sports associations have been set up together with



three specialized sports teams--soccer, basketball and martial arts--and the level of sports proficiency is rising steadily.

#### (XI) Shekou Industrial District

Shekou is located at the southern tip of the Nantou Peninsula on the east bank of Zhu Jiang in the western part of Shenzhen, facing Shenzhen Bay. The environment here is richly endowed by nature. It is only 30 km from the Shenzhen city limits. Shekou was originally a stretch of barren beach, but the development program launched by the China Merchants Steamship Company 5 years ago has awakened this piece of land from its slumber. The construction of the Shekou industrial district is guided by the principle of "taking industry as the key link, energetically importing, integrating internally and externally and developing in an all-round way." After 5 years of arduous pioneering work, it has now become a harbor industrial district of considerable scale with exquisite environment and complete facilities. This industrial district employs over 7,000 workers and staff members whose average age is only 25. In the industrial district, 80 percent of the workers and staff members had senior middle school level education and 60 percent of the administrative cadres have a record of formal schooling at the university level. Currently, the number of imported items totals over 100 and the number of enterprises put into operation or opened for business comes to 64. Manufacturers from the United States, Japan, Denmark, Britain, France, Singapore, Switzerland and Norway have come to Shekou to establish enterprises. Products manufactured in the industrial districts are mainly for sale abroad. Several scores of products have made their way into the international market and the total industrial output value of the whole district came to more than \$HK800 million. Since its establishment, the Shekou industrial district has provided us excellent experience in reforming its labor, hiring, wage and housing systems and administrative structure in line with the spirit of exploring and reforming.

#### Development Prospects for Shenzhen SEZ

Our goal is to build Shenzhen SEZ into a socialist special economic zone with a developed economy, advanced technology, scientific management, prosperous culture and exquisite environment by the turn of the century.

The land under planned use in the SEZ covers 98 square km, it is divided into three tracts and 18 functional districts based on the geographical location and conditions and taking into consideration the intentions of the investing businessmen. The district division, the main functions and the acreage of usable land are shown in the table below.

By 1985, the total industrial output value is expected to reach 1.2 billion yuan, the average annual progressive increase will come to 65.6 percent and the whole labor productivity will amount to 25,000 yuan. Profits are expected to reach 105 million yuan.

By 1990, the number of major factories will grow to about 470 with 80,000 workers and staff members.

	Sec- tion	District	Main function	Area (hectares)
Eastern Tract		Daxiao Meisha	Tourism	172
		Yantian	Fishery, agriculture, industry	578
		Shatoujue	Commerce	260
Central Tract	Eastern section	Liantang	Industry	300
		Luohu District	Commerce, residential	200
		Jiucheng District	Commerce, residential	400
		Reservoir District	Tourism, residential	440
	Central	Shangbu District	Industry, residential	1,000
	Western section	Futian New City District	Comprehensive	3,000
		Chegongmiao District	Comprehensive	600
		Xiangmihu District	Tourism	210
		Agromony Academy	Scientific research	400
Western Tract		Shahe District	Industry	1,200
		Shekou Industrial District	Industry	230
		Houhai District	Comprehensive, education	600
		Xili Reservoir District	Tourism	300
		Chiwan Harbor District	Industry, harbor	500
		Baoan County Capital	Industry, comprehensive	610

By 2000, the SEZ's population is expected to grow to 800,000 and the population under employment will come to 400,000 with 200,000 in industry and 200,000 in other trades. The industrial labor productivity will be the nation's highest. The agricultural labor productivity is expected to increase from 516 yuan in 1981 to 2,000 yuan annually. The per-capita income in the special zone is expected to reach U.S.\$2,000 and the target of struggle to achieve and surpass the annual per-capita national income of U.S.\$800 may be realized many years earlier.

12662

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## SPECIAL ECONOMIC ZONES

### INDUSTRIAL PARK PROVIDING SUPPORT FOR SOUTH CHINA SEA OIL

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 7, 27 Jul 84 pp 45, 38

[Article by Huang Chengchao [7806 2763 6389]: "Shekou Demonstrates Its Charms to Investors"]

[Text] The Shekou Industrial Park, whose construction started in July 1979, operates under the supervision of the Hong Kong Office of the China Merchants Steam Navigation--an organization of the Chinese Ministry of Communications in Hong Kong. It is part of the Shenzhen Special Economic Zone [SEZ] and an economic entity of absolute independence. It was developed and built and basically completed at an amazing speed in a short period of over 4 years.

1. A new-type seaport centering on comprehensive development with industry playing a dominant role has preliminarily taken shape. Shekou, which originally was a barren beach and wasteland, is today the site of hundreds of factories and residential buildings that have sprung out of a land of 2.14 km. Of a total building floorspace of 480,000 sq m already completed, industrial factory buildings account for 290,000 m, public installations for 36,000 sq m, residential houses of staff and workers for 125,000 sq m, and other production facilities for 14,000 sq m. This has preliminarily brought into being a new-type seaport industrial park, with an architectural system centering on industrial buildings and with industry playing a leading role, possessing residential buildings, tourism, businesses, communications and transportation, which have all appeared in the Shenzhen bay area. In order to facilitate establishment of factories for electronic and light industries, for other trades and businesses, 16 standard factory buildings had been planned for construction, of which 7 were built and sold.

2. The five basic projects of "navigation, transportation, water supply, power supply, communication" are being perfected with each passing day, and the outcome of management is being upgraded with each passing year. A distinctive feature is the use of "navigation" as a core for propelling step by step the projects of transportation, water supply, power supply, and communication. The handling capacity of the Shekou Harbor has grown year after year, increasing from 120,000 tons in 1981 to 350,000 tons in 1982, and to 500,000 tons in 1983--close to the designed handling capacity of 800,000 tons. In normal conditions, the 1984 handling capacity could top

the 800,000-ton mark. Also being expanded continually is the passenger transport service which, on the foundation of an air route established between Ehekou and Hong Kong, opened air routes to Zhuhai and Canton in 1983, and is preparing to open air routes to Jiangmen and Shiyu in 1984. Since 1983, Shekou has become the Shenzhen SEZ's pivot of water transportation. In pace with the operations of 10,000-ton berths in Chiwan Harbor and the use of special petroleum berths in Shekou Harbor, the status of Shekou in the Shenzhen SEZ has become more and more important. The value of land opened up in Shekou will consequently be a focal point of attention, and more foreign firms will be lured in to make investments.

3. With the drawing in of capital and the import of advanced technology, equipment and management, the preliminary foundation of an industrial park has been laid. In the wake of an uninterrupted improvement of the investment climate in the industrial park, there was a continual increase in the import of investment projects. As of the end of 1983, Shekou was able to sign contracts for 64 projects, including 44 projects for industries, 9 projects for house construction, 8 projects for businesses and tourist trade, 3 projects for communications and transportation, of which 51 projects were completed or put into production and operation. Preliminary statistics indicated that the foreign capital drawn in amounted to HK\$1 billion, of which Hong Kong and Macao capital accounted for 70 percent, the remaining capital coming from the United States, Japan, Denmark, Britain, Singapore, Switzerland, Norway, etc.

The 13 factories in Shekou, as is shown in their incomplete statistics, have imported 67 sets of advanced equipment, of which 3 sets are of advanced world levels and 37 sets of advanced domestic levels; 4 projects of advanced technology, of which 1 project is of advanced world level and another project of advanced domestic level. Also imported at the same time are advanced foreign management methods.

4. Groups of enterprises have been built and put into production. They are starting to reap the fruits of management. The industrial part has begun to recoup capital. The capital recouped from 1980 to 1983 amounted to approximately HK\$100 million. A review of the situation of 20 financially independent factories and joint-venture plants after going into operations indicated that the production of a vast majority of the factories and plants was good. The Sanyang Co, LTD (Shekou), which started trial production as late as July, reported an increase in its daily output value from HK\$760,000 in July to HK\$7.99 million in October; the Huayi Aluminum Plant, while still undergoing a process of trial production, fulfilled 8 days ahead of schedule the December 330-ton production plan assigned by the board of directors, and it produced circular plates of grade-A standard. The Haiyun Containers Plant has expanded sales of its products and achieved a daily production increase under the condition of recession in the world markets. The Huamei Steel Plant has adopted an operational principle of integrating industry with trade, thereby making profits out of a business volume of HK\$120 million. The factories going into production at an earlier stage--the Haihung Paint Factory, Zhonghung

Oxygen Manufacturing Factory, Kaida Toy Factory, Jianghui Pleasure Boat Factory--have all achieved relatively great developments. By paying attention to quality and by implementing an operational principle that centers on sales, the Haihung Paint Factory has made relatively great achievements and secured an average monthly sales volume of 175,000 kg, an 2.3-fold increase over the monthly sales volume of its Hongkong-based factory, with profits expected to top the 1982 record by 80 percent and net gains to reach HK\$5 million. The Kaida Toy Factory, which hires over 1,000 workers and went into production in 1982, declared in 1983 that it was starting to make profits in the year.

5. Preliminary conditions have been secured for rendering logistical services to oil exploiting in the South China Sea. Good services have begun. Situated in a superior geographic location, and functioning as an outpost of oilfield exploitation in the South China Sea, the Shekou Industrial Park now possesses conditions to render services for South China Sea oil after years of construction. Already rebuilt is the Wuwan Wharf, where a 140-meter coastline in the intermediate sector has been reconstructed to provide special berths for servicing the oilfields, with installations of power supply, water supply, oil supply, and dust-blowing facilities. Since September 1983, the industrial park has rendered services to more than 10 special petroleum vessels of many foreign petroleum corporations, including the British Petroleum Corp; leasing out warehouses and storage grounds, building 10,000 sq m of storehouses and 35,000 sq m of storage grounds in the harbor area and its rear; renting out over 4,000 sq m of storehouses and more than 10,000 sq m of storage ground; completing the building of simply equipped parking areas for helicopters; providing office buildings and residential houses. At present, the foreign corporations--the British Petroleum Corp, the petroleum cartels of Egypt and Somalia, the western countries, the oil cartel of Japan, the Pearl River (Zhujiang River) Petroleum Joint Operations--have set up administrative offices as well as rented office buildings and living quarters in Shekou. In order to step up servicing and coordinating work on South China Sea oil, the management committee of the industrial park established in September 1983 the Office of South China Sea Petroleum Service. Now being planned for construction in succession are a number of industrial and commercial and tourist projects for servicing oil prospecting and production. Already going into business are an energy machinery and technology service center and the Haifa Enterprises Corp.

As a result of its relatively fast developments, the entire Shekou Industrial Park--being new every day and different every month--has witnessed a steady growth not only in the number of foreign firms coming to the industrial park for talks on investments, but also in the number of petroleum companies coming to set up oil bases and agencies. To the investors Shekou has indeed demonstrated its charms.

12315

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## SPECIAL ECONOMIC ZONES

### INTRODUCTION OF NEW CURRENCY INTO SHENZHEN

HK020558 Hong Kong SOUTH CHINA MORNING POST in English 2 Mar 85 pp 1, 18

[Article by David Chen]

[Text] China has finally decided to introduce new currency into the Shenzhen Special Economic Zone [SEZ], its mayor, Mr Liang Xiang, has said. The mayor's disclosure was reported in one of Shenzhen's newspapers, the SEZ WORKERS' DAILY, after Mr Liang talked to a group of intellectuals meeting in the zone last week.

The WORKERS' DAILY report was reproduced in yesterday's edition of the Hong Kong leftwing newspaper, WEN WEI PO.

China already has two currencies widely in circulation. The first is the original renminbi (RMB) and the second, introduced only 5 years ago, is the foreign exchange certificates (FEC). The latter is not officially money and is intended for use by foreign travellers when buying imported goods.

But today, foreign exchange certificates are also legal tender in all the open cities and almost all the 200 cities that foreigners are allowed to visit. They have become popular with local people, who can use them to buy foreign-made goods and in shops, hotels and restaurants, as well as resorts formerly restricted to foreigners only.

The introduction of a special currency for the Shenzhen SEZ, first hinted at more than a month ago, has been a controversial issue for some time.

Detractors have pointed to the ill effects such a new currency would eventually have on the economy of the country.

Those who are opposed to it claim it will mean a third currency for China.

At present the Shenzhen money can only be used in the economic zone, and no other money—including the renminbi or REC, Hong Kong and U.S.dollars—is allowed.

But such a rule will surely be flouted as the original restrictions on the FEC have been flouted in the past few years.

If Shenzhen is to have its own money, then other zones, such as the enterprising Xiamen SEZ and less prosperous ones in Shantou (Swatow) and Zhuahi would also crave their own.

Soon the 14 open cities and the proposed open delta regions will demand the same privileges. But advocates of the new currency point out the very real difficulties and confusion that now exists in Shenzhen over monetary matters.

Hong Kong dollars freely circulate and are even preferred to the FEC.

It is no longer teatime talk or gossip that there are three grades of currencies in the SEZ, each with different values--with the Hong Kong dollar ranking first and RMB a poor third.

As the region operates in a style close to that of Hong Kong, it is very difficult to distinguish the SEZ from Hong Kong.

An equally important consideration is the demoralising effect on government officials working in the SEZ.

Officials are paid in the devalued RMB but they are supposed to ensure certain commercial and industrial practices are in order, which calls for them to adopt certain customs from a capitalist society which are alien in a socialist regime.

One official lamented that he was unable to return hospitality. He could not even offer a cup of tea in the very city of which he was a representative, because he was paid in renminbi. He could not visit more than 60 percent of the SEZ's restaurants, hotels, shops or teahouses, which only accept FEC or Hong Kong dollars.

The controversy has been raging for more than a year and it appears, in Mr Liang's words, that it will finally be resolved when the special money is issued.

Later this year, according to the newspaper, there will only be one currency that will be legal tender in the SEZ; and the RMB, FEC, Hong Kong or U.S. dollar will not be allowed to circulate.

Observers note that the disclosure by Mr Liang must have official endorsement because it came shortly after the brief southern sojourn of the country's top leader, Mr Deng Xiaoping, during the Lunar New Year.

But the question of when this new currency will come into circulation remains.

Mr Liang indicated "later this year" without giving a definite date. But it is likely it will only be used on the other side of the second border fence, when the checkpoints at Po Kut and two other areas are ready--perhaps in the summer.

Mr Liang, who appeared to be quite confident that the new currency will be circulated in his SEZ, had earlier spoken to a Hong Kong-based magazine, PAI SHING.

The introduction of the currency in the SEZ was the only way to combat rampant black-market dealings in Hong Kong dollars, he told the magazine.

That appeared to be the sole official reason for introducing the new money.

It is common knowledge that HK\$100 will now fetch as much as RMB75 as against the official rate of RMB 35.

And it is a common sight to see newly arrived Hong Kong visitors accosted at several entry points in Shenzhen and blatantly asked to sell Hong Kong dollars--with little public security police interference.

But black-marketeering of RMB is also rampant elsewhere in China--in Canton, in other special economic zones, and particularly, on Hainan.

Soon the question will be raised whether these places will be able to have their own currencies.

CSO: 4020/138



25 March 1985

## LABOR AND WAGES

## SOLUTIONS FOR EMPLOYMENT PROBLEMS IN YUNNAN PROPOSED

Kunming JINGJI WENTI TANSUO [INQUIRY INTO ECONOMIC PROBLEMS] in Chinese  
No 11, 20 Nov 84 pp 53-54

[Article by Yang Guoxiang [2799 0248 4382]: "Some Preliminary Suggestions for Solving Unemployment Problems in Yunnan"]

[Text] From 1979 through 1983, employment work in Yunnan succeeded in finding jobs for 462,500 people (excluding centralized allocations) in cities and towns. As the economy develops, the number of people in the work force has also increased, from 2,075,300 at the end of 1979 to 2,470,600 at the end of 1983, an increase of 19.1 percent. The number of self-employed laborers in cities and towns increased from 1,419 at the end of 1979 to 44,900 at the end of 1983, 30.6 times that 5 years ago. The employment rate in towns and cities rose from 55.2 percent in 1979 to 56.2 percent in 1983. According to sample surveys in Kunming, Xiaguan and Gejiu, the number of dependents per employed person dropped to 0.83 from 1.2 in 1978. The development of employment work has further fueled the economy of the entire province, the market has become more prosperous and the people's livelihood has been improving continuously. Everybody can see that society now enjoys more stability and harmony. But we must not slacken our efforts just because employment difficulties have eased. Nor can we relax our leadership because employment work is gradually being put back on its feet. We must realize that our duties ahead remain arduous and that employment work is still a formidable task. Under the "Sixth 5-Year Plan", jobs are to be found for 600,000 people in cities and towns. In the next two years, 40,000 people still have to be allocated jobs. Add this number to those who are now in casual employment or made redundant by enterprise consolidation, and we have a massive problem. It is estimated that for each of the five years covered by the "Seventh 5-Year Plan", close to 100,000 people need jobs. Moreover, employment at collective enterprises has been declining steadily in the last 2 years. Unemployment in some localities, factories and mines is particularly serious. The employment of young women also presents a widespread problem. At present, with the rural economic policy being carried out in depth, peasants are moving into cities to go into business. State-run enterprises will complicate the allocation of jobs in cities and towns. As a result, we must seriously examine employment work in light of the new conditions in order to solve youth employment problems by making the best use of our situation.

In tackling employment issues, we must broaden our vision as well as focus on realities in Yunnan. This article offers some preliminary observations.

1. Develop enterprise recruitment and employment forecasting as a means of integrating labor force with production data. Since 1978, enterprises have been recruiting staff by examination which, to a certain extent, offers both enterprises and people waiting for jobs a chance to choose. But in a major way, however, this method still fails to satisfy other needs. How can we integrate both sides' choices organically? A better approach is to develop enterprise recruitment and employment forecasting. Information on the type of workers required by an enterprise should be promptly made available to people waiting for jobs so that they can decide whether or not to apply. At the same time, the qualifications of people waiting for jobs should be conveyed to enterprises which will then decide whether or not to hire them. Such services are seriously lacking at present. In the past, the communication of information of this nature was in the hands of a small number of people in labor departments. If we can do a good job in this area, enterprise recruitment and youth employment will be much better handled. Both parties' initiatives will also be fully made use of.

2. Integrate small town construction and insist on multi-level employment. Facts show that to solve city and town employment problems, we must firmly adopt the multi-level employment approach. Currently, city employment problems are more manageable than those in county towns. Enterprises have less difficulties than non-enterprise units. In terms of the geographical distribution of people waiting for employment, the province's 10 cities account for 51.2 percent of the provincial total, while county towns account for the other 48.8 percent. About 70 percent of the people waiting for jobs belong to enterprises. Consequently, only by taking a multi-level approach can we solve the employment problems in a planned way.

First, we should let cities play a full part. According to 1983 statistics, our 10 cities placed over 40,000 young people in jobs, or 62 percent of overall job placements. When these localities manage to do a good job, they set a powerful example for the masses of county towns. Our small towns also have a tremendous potential for job placement. In 1983, the 115 small towns and 1,400 market towns in the province accounted for only 38 percent of all job placements. However, once the economy takes off and employment work gets under way, the potential is considerable. In Tonghai County, for instance, of the 600 young people who joined the ranks of those waiting for jobs from 1980 to 1983, 530 were taken care of through the development of collective industries alone. There are on average fewer than 500 people in need of a job in each county. If every county follows Tonghai County, not only will anybody who needs a job be given one, but a labor shortage may also appear. Additionally, the rapid development of enterprises run by rural communes and brigades and sideline production has absorbed surplus labor from neighboring towns and cities as well as accommodated a large number of rural unemployed. For instance, some cities and counties in Honghezhou and a number of commune and brigade enterprises have created jobs for several thousand people in towns and cities.

In short, employment issues are closely related to economic development. Only by developing the economy can we find satisfactory solutions. But then employment work also has its own characteristics. It is not enough just to tie employment issues to economic development or to deal with them in large cities with a concentration of unemployed people. We must also come to grips with employment problems in numerous other towns and cities so that the entire social labor force can slowly harness its talents and intelligence in the interest of the four modernizations.

3. Bring about the coexistence of a multitude of economic forms and open up various channels of employment. Judging from our 5-year experience in job placement, collective economic units, which require little investments and produce quick results, can accommodate more workers more quickly than others. They accounted for 39.2 percent of all jobs created in the 5-year period and 61 percent of all jobs created in the first quarter of this year alone. As a result, they constitute the most essential channel of job creation. Another channel is the individual economy, which has been growing rapidly since last year. Then there is the variety of temporary services which also have considerable potential. In recent years they have provided work for 15,000 to 20,000 people each year. The need for these services will intensify as society develops; hence, they represent yet another vehicle of job creation. What we lack right now is a centralized management organization. Relevant social insurance questions, too, must be addressed. In the future, labor service companies must gradually be made more sophisticated and developed into a batch of comprehensive, professional service contingents which offer services at home and abroad to families and individuals as well as units.

4. Merge social and economic development needs and launch various forms of vocational training to unemployed people. To supply enterprise and society with qualified labor force is an important link in improving social economic results and promoting employment. At a time when we have serious employment problems, it is essential that we solve the paradox of "jobs going unfilled because people are not qualified to do them." Employment training must revolve around the improvement of economic results. We should require people waiting for jobs to acquire good political and technical qualifications in addition to a basic educational level and an ability to work. As the economy develops and science advances, we must train a variety of managerial and service personnel as well as a large number of production workers. First, we must launch vocational education on a massive scale, setting up a training network centered on vocational education. Second, employing units themselves should provide training tailored to their own needs. Third, social organizations, including enterprises, should operate a range of training courses in accordance with social needs. Fourth, idle scientific and technical personnel may be encouraged to offer technical training. Fifth, on the basis of their work in vocational technical training, labor service companies should take on additional roles as organizers, coordinators and guides. Briefly, then, only by developing vocational training in all its variety can we meet changing social needs and supply enterprises and society with different kinds of qualified personnel in a planned way in order to promote social and economic developments.

5. Strengthen labor service companies and enable them to fully exercise their function as a "reservoir" of social labor force. According to statistics released in 1983, over 700 labor service companies of all kinds have been set up. Besides supplying enterprises and society with a large number of workers, they run their own enterprises and network points which now number 2,700. These companies have placed over 7,760 people in jobs and arranged temporary employment for another 7,650 people. They grossed over 17.1 billion yuan in revenue, made a profit of 20.49 million yuan and paid the state 4.52 million yuan in taxes (most enterprises are tax-exempt). Their employees make an average 50 yuan per month. Although many problems and issues remain in the development of these enterprises, they are well on the way to becoming vocational training grounds, "reservoirs" of manpower which provide a comprehensive base for the allocation of social labor force. In addition, of course, they are production units in their own right. There are numerous labor service companies in Yunnan. As they become more sophisticated, their functions will become more and more evident.

12581

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## TRANSPORTATION

### CHANGES SUGGESTED FOR TRANSPORTATION SYSTEM

Beijing JINGJI RIBAO in Chinese 19 Nov 84 p 2

[Article by Peng Jiayu [1756 1367 3768] of the Economic Construction Group of the CPPCC National Committee in the Column "Suggestions for Four Modernizations": "The Irrational Structure of the Transportation System Must be Changed as Quickly as Possible"]

[Text] In addition to seriously inadequate transport capacities and backward technology and equipment, one important reason for the strain on China's transportation services is the irrational structure of the transportation system.

Since the founding of New China, a problem has existed in the guiding thought for the development of the transportation services: overemphasis on railways to the neglect of water transport, highways, aviation, pipelines and other forms of transportation. From the First 5-Year Plan to 1982, state investment in railways accounted for 90 percent of the total investment in transportation services. Highways were not included in the plans and received no investment. Inland water transportation has been on the decline since the 1960's, total mileage serviced dropping from 170,000 kilometers to some 100,000 kilometers. This has resulted in overburdening the railways and having railways undertake many irrational kinds of transportation. For example, railways are superior for transporting large quantities of goods over long and medium distances, but at present short hauls of under 100 kilometers account for 25 percent of total railway freight volume; highways are superior for short-distance passenger and freight transportation, but highway freight transport makes up only 9 percent of the total freight volume; airlines are superior for long-distance passenger transportation, but they are carrying only 2 percent of the total passenger traffic; pipelines are the most economical for oil delivery, but 64 percent of oil products are transported by railways; water transportation is suitable for long hauls of large quantities of goods, but the volume of cargoes shipped by water amounts to only 18.4 percent of the total freight volume. This irrational state of the transportation structure has caused the overall strain on the railway system.

To build an appropriate and integrated transportation system, attention should be paid to the following:

1. Vigorous efforts should be made to develop water transportation. China has 18,000 kilometers of coastline and more than 50,000 inland rivers. Many waterways are lying useless, and the present navigable mileage amounts to only 25 percent of the total length of the rivers. Water transportation has great potentialities for development. With regard to the existing rivers, consideration should be given to irrigation and power generation as well as water transportation so that overall plans can be made for the rivers to be harnessed in a comprehensive way. The proportion of state investment in inland water transportation should be increased. First of all, it is necessary to upgrade water transportation in the Changjiang and the Grand Canal between Beijing and Hangzhou. Next, work should begin on an overall scale, removing dams and dikes which obstruct shipping, dredging river channels and increasing water transport in terms of both mileage and tonnage. Moreover, the system should be reformed to break the monopoly of shipping in all major rivers by the water transport bureaus, and it is necessary to encourage collectives and individuals to take part in developing and running coastal and inland river shipping services.

2. Highway construction should be stepped up so that highways gradually will become the principal means of short- and medium-distance transportation, especially short-distance passenger transportation. The existing highways should be reconstructed to improve quality.

3. Air transportation should be expanded so that aircraft gradually will become the principal means of long- and medium-distance passenger transportation. At present, we have a very low efficiency in the use of civil aircraft. If the rate of aircraft utilization can be increased, the volume of air passenger transportation can grow 20 times without the need for many additional airplanes. Now is the time to separate international and domestic air routes and form two separate corporations. The provinces should be allowed to operate civil air transport services.

4. Pipelines should be vigorously developed so that they gradually will become the principal means of transportation for crude oil and oil products. At present, pipelines carry less than 1 percent of the total output of oil products. Each day an average of six or seven railway trains leave Shanhaiguan to deliver oil to the interior, and the tank cars return empty because they have no other use. I suggest that an oil pipeline be laid from Jinxi to the interior. The use of pipelines to transport coal has a number of advantages: It is cheap, takes little land, has a great carrying capacity and is safe and reliable, and the technical problems such as wear and tear and dehydration have been solved. The Ministry of Coal Industry is planning to build a pipeline from Jingdongnan to Jiangsu. Efforts should be made to bring it into reality and operation at an early date. At present, there is no department specifically responsible for pipeline transportation. A special organization should be established.

5. Railway transportation should be further developed to increase the carrying capacity of existing facilities. For example, adoption of multiple locomotive traction, longer trains, double-deck passenger cars for densely populated areas, scientific management to increase the number of train runs, and so forth.

To change the irrational transportation structure, it is necessary to carry out appropriate reforms in policies and the system. The proportions of investment should be readjusted, according to plans aimed at forming a combined transportation capacity, and for the immediate future the emphasis should be placed on the weak links. The road tolls collected and the 15 percent of profits retained by water transport services should be turned into a special fund for developing highway and water transportation. The localities, units, collectives and individuals should be encouraged to raise funds and bring in overseas Chinese and foreign capital to build roads, harness rivers and construct wharves. Support should be given to the development of highway, water, air and pipeline transportation by means of prices. A unified planning and administrative organ should be established to correct the situation in which the five forms of transportation are under the control of four ministries and bureaus, each doing things in its own way. It is suggested that the State Council set up an integrated leading organ for the transportation services. In the structural reform yet to come, government should be separated from business; the Ministry of Railways, the Ministry of Communications, the Civil Aviation General Administration and other departments should be abolished; and a number of specialized corporations should be formed to be operated and managed according to business methods.

12802

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## TRANSPORTATION

### CARGO HANDLING CAPACITY OF SHANGHAI HARBOR INCREASED

Shanghai WENHUI BAO in Chinese 23 Sep 84 p 2

[Report by Xu Guoying [1776 0948 5391]: "How Much Has Shanghai Harbor's Cargo Handling Capacity Increased in 35 Years? One Week in 1984 Equals All Year in 1949"]

[Text] The volume of cargo handled by Shanghai Harbor in a week now is equivalent to what was handled by the harbor for the whole year of 1949.

The greatly increased degree of mechanization of port and dock facilities has provided the conditions for Shanghai Harbor to rapidly increase its cargo handling capacity. Before liberation, loading and unloading at Shanghai Harbor were completely handled by men using their muscles. In 1952, there were only 35 sets of loading and unloading machines. By the end of 1983, the number had increased to 3,484 a 98.5 fold increase. Now the term "longshoremen" has changed fundamentally in meaning. The workers in various harbor zones and wharves are mainly operators of trucks, trolleys, forklifts, cranes and other loading and unloading machines. A small number of workers performing manual labor have become auxiliary dock workers. The handling of bulk cargo on the wharves has basically been mechanized, and the pieces of sundry goods are "loaded and unloaded by groups," which greatly reduce the labor intensity of workers and increase labor productivity.

The construction of various specialized docks has increased the harbor's cargo handling capacity. In the sixth and seventh zones of Shanghai Harbor, four mechanized coal-unloading operation lines have been installed, of which the south unloading stage in the seventh zone alone can unload a 22,000-ton coal ship in an average of 17 hours. The reconstructed mechanized bulk grain unloading operation line in the second zone of Shanghai Harbor can unload a 15,000-ton bulk grain carrier in 24 hours. The fourth and eighth zones of the harbor have been rebuilt into special-purpose wharves for lumber and ores with a fairly high degree of mechanization.

Shanghai Harbor as a whole handled 91.9 million tons of cargo in 1983. It is estimated that the harbor will handle a total of over 95 million tons of cargo in 1984. The State Economic Commission has conferred the honorary title of "Advanced Unit in Economic Results" on Shanghai Harbor.

12802

CSO: 4006/177



## TRANSPORTATION

### LONG EXPRESS TRAIN BETWEEN BEIJING, WUCHANG STARTED

Beijing TIEDAO ZHISHI [RAILWAY KNOWLEDGE] in Chinese No 5, 28 Sep 84 pp 26, 28

[Article by Jin Zhenhu [6855 6591 5706]: "An Extra-long Express Passenger Train Goes into Service Between Beijing and Wuchang"]

[Text] China's Ministry of Railroads decided that starting 1 October 1984, more coaches will be added to the Nos 37 and 38 express passenger trains between Beijing and Wuchang. The purpose of this change is to increase passenger transport and in part to resolve the problem of a shortage of engines and carriages. Originally, each passenger train had 16 coaches; now it has 20. Each coach has 118 sets, and with 4 more coaches each train now carries 472 additional passengers. This is an important breakthrough in fully utilizing existing equipment.

Some countries, such as India and the Soviet Union, use longer passenger trains. Some passenger trains on main lines in India have 22 coaches each, and some passenger trains in the Soviet Union have 20 coaches each. In the past, because of the inadequate condition of the railroads in China, it was thought that each train could have only 14 coaches; the longest Chinese passenger train in 1983 had only 18 coaches. But now, in an effort to increase railroad transport capacity, an increase in train speed and in the frequency as well as the number of coaches for each train is planned.

However, for a passenger train, one does not just casually add more coaches. Many factors must be taken in consideration, chief among which are the engine power, the traction force at the start and the wheel circumference traction force, the uphill climbing power and stability and safety on a high-speed run. The condition of the train stations must be also taken into account. Each station must have arrival and departure lines long enough for long trains. The front of the locomotive should be 30 meters behind the signal tower and the end of the train must be in front of the collision-warning signal. In sum, the length of the platform should be long enough for the whole train, the boarding and exiting of passengers, the loading and unloading of luggage and mail and the replenishing of the water supply.

For the sake of resolving several technical questions, in March 1984 the Ministry of Railroads and relevant institutions made an experimental trip

with a 20-coach passenger train on the Beijing-Wuchang line. To the basic 16-coach train, Nos 38 and 38, the authorities joined 3 additional sleeping cars with soft seats and 1 coach for measuring train engine operation. Including the locomotive, the whole train was 506.5 meters in length, with a pulling force of 1.066 tons. A Beijing-type diesel locomotive was used. Starting from Beijing, the train went 1.229 km in 17 hours and 32 minutes and arrived at Wuchang on time. Then the train returned to Beijing equally successfully. This was the first in-service extra-long express passenger train in the history of China's railroads.

The test had two parts: one group of technicians observed and measured the lengths of the arrival and departure lines at the stations. Another group worked in the test coach. Using its measuring equipment, this group registered the speed, acceleration, times of operation and other characteristics of the train operation. When the train left Beijing, it looked like a green dragon. Its scheduled stops were Baoding, Shijiazhuang, Handan, Anyang, Zhengzhou, Xuchang, Luohe, Zhumadian, Xinyang, Hankou and finally Wuchang. The research team conducted analyses at every station and maintained precise records.

According to Chapter 139, Paragraph 2, of "The Regulation and Administration of Railroad Transportation", the effective length of the arrival and departure lines for a passenger train at a station is 500 meters (with 600 additional meters reserved for contingencies). However, for this extra-long passenger train the length should be 536.5 meters (including 16.5 meters for locomotive, 490 meters for coaches and 30 meters in front of the locomotive). Therefore, the relevant paragraph of the "Regulation" must be revised. As a matter of fact, the length of the arrival and departure lines of the stations between Beijing and Wuchang is already satisfactory. Of 11 station lines at Hankou Station, one is 624 meters long. Of seven lines at Wuchang Station, four are between 554 and 595 meters long. Five lines at Shijiazhuang Station are between 582 and 606 meters long; seven lines at Zhengzhou Station are between 545 and 862 meters; and all are satisfactory for this new long train. The lines at Handan, Xuchang, Zhumadian, Xinyang and others are for both passenger and freight trains. Their minimum length is 850 meters. Thus, every station surveyed already has an adequate length for this kind of passenger train.

As for platforms, according to Chapter 139, Paragraph 2, of the "Regulations,": the effective length of a platform must be from 400 to 500 meters (with an additional 550 meters reserved for contingencies). A platform must be satisfactory both for boarding and exiting passengers and also for loading and unloading freight and mail. Its minimum length should be as long as the train. The minimum length for 20 coaches should be at least 500 meters. The results of the analysis shows that except for the platforms at Handan and Wuchang, which meet the requirement, all other platforms of the stations at Beijing, Baoding, Shijiazhuang, Anyang, Xuchang, Luohe, Zhumadian, Xinyang and Hankou are from 11 to 75 meters shorter. On three platforms at Zhengzhou Station there is a 150 meter long section, which should be elevated. All those shorter platforms mentioned above must be reconstructed.

Adequate traction power in an engine is the precondition for a train with 20 coaches. To pull a heavier train with the same engine requires a change of starting time and speed. The Beijing-type locomotive has a sustained power of 2,700 horsepower. Its starting power for each wheel circumference is 23,000 kg. Train operation rules prescribe that the acceleration time for a train with 16 coaches (the time required for accelerating from 0 to the normal running speed) be from 1.5 to 2 minutes. The test showed that the starting time for a train with 20 coaches was from 1 to 1.5 minutes longer. A theoretical calculation has determined that a Beijing-type locomotive, while it is going up a 4 per-thousand [as published] slope, can pull 47 coaches from a standing start, and while it is going up a 12 per-thousand slope, can pull 20 coaches. On a level road, while it is pulling 16 coaches, the maximum speed comes to 89 km per hour, and while it is pulling 20 coaches, the maximum speed can reach 82 km per hour. The result of the test shows that the trip from Beijing to Guangshui is normal.

However, the train experienced a difficult trial near Lijiazhai Station between Guangshui and Xinyang. It had to go up a 5 km long slope at Wushengguan with a 12.5 per-thousand grade. Before this stretch the speed of the train decreased to 45 km per hour. The engineer was driving carefully. He put the speed handle on the 16th position for a full climb for over 9 minutes and the train got to the top of the slope at a speed of 28.5 km per hour, which was 5.5 km slower than the actual speed. The train arrived at Gongjishan Station on the top of the climb 40 seconds earlier than expected. On the section between Guangshui and Xinyang, the speed was 83 km, which was 3 km faster than the scheduled speed, and the train arrived at Wuchang on time. The trip back from Wuchang to Beijing was also successful. That means that the Beijing-type diesel locomotive is able to pull a train with 20 coaches. This experimental trip provided valuable experience and laid a foundation for the use of passenger trains Nos 37/38 with 20 coaches, which started 1 October 1984.

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## TRANSPORTATION

### NEW RAILROAD OPENED IN EAST CHINA

Beijing TIEDAO ZHISHI [RAILWAY KNOWLEDGE] in Chinese No 5, 28 Sep 84 p 19

[Article by Zhang Huaizhi [1728 2037 2535] and Li Jiancheng [2612 1696 2052]:  
"The Fuyang-Huainan Railroad, a New Line on the Jianghuai Plain"]

[Text] The Fuyang-Huainan Railroad, which runs along the western part of the Jianghuai Plain and crosses the Huainan-Buaibei coal basin, was put in service on 18 November 1983. This road was built to ease the burden on the other lines. It not only supplies fuel to the Baoshan Iron and Steel Plant but also has an important significance for the improvement of transport in the northern part of Anhui Province, for the development of the Huainan-Huaibei coalfields and for all industrial construction in Anhui Province.

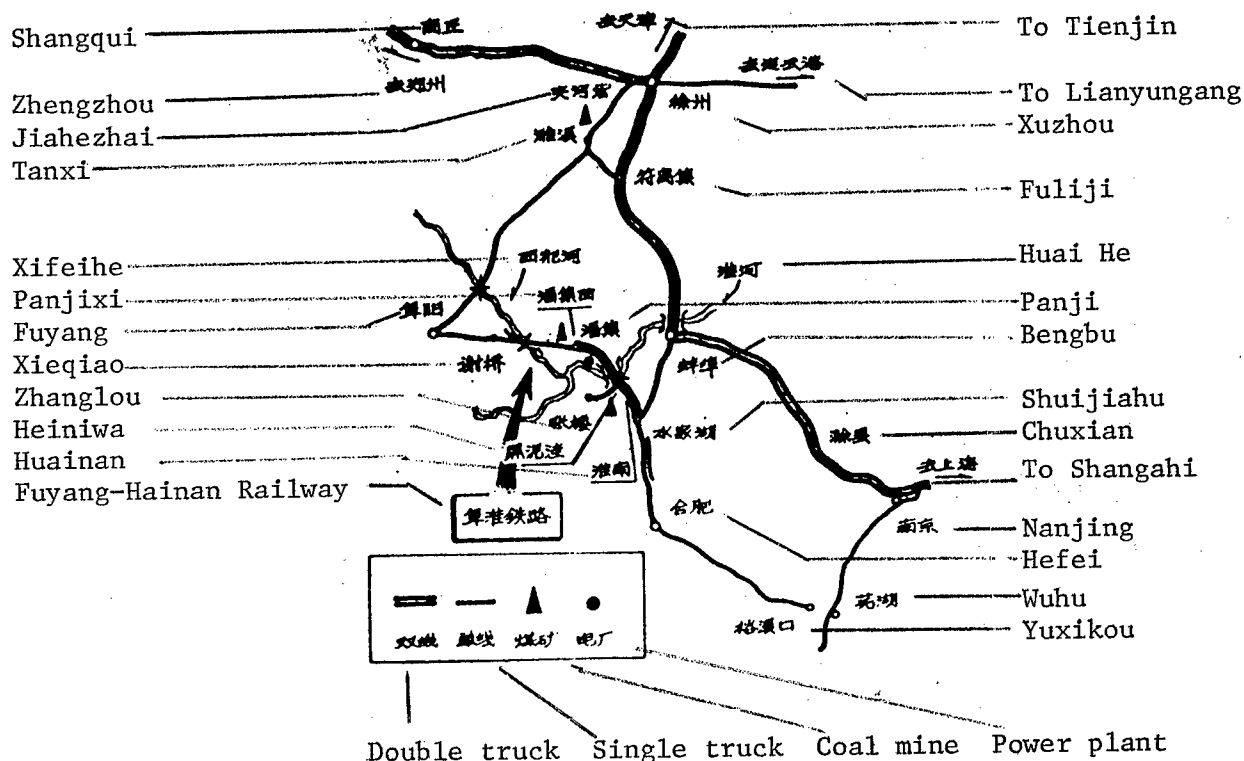
#### Artery Across the Coalfields

The Fuyang-Huainan railroad was originally part of the Baoshan Iron and Steel Plant project. Its mission was to transport coal to Baoshan. Together with the Huainan-Yuxikou double-track railroad, the Fuyang-Huainan railroad was planned to be built at the same time as the Baoshan plant. The Fuyang station will be a station of the future Beijing-Jiujang railroad. Therefore, the Fuyang-Huainan railroad is a junction of the Beijing-Jiujang road, the Tienjin-Pukou road and the Huainan-Yuxikou road. The cargo through the Fuyang-Huainan railroad can be continuously transported on the Tienjin-Pukou road and the Huainan-Yuxikou road in the east, as well as on the Beijing-Jiujang road in the west, on the Jiujang and Yuxikou road in the south and on the Lanzhou-Lianyungang road in the north.

The Panji coalfield, which the new road crosses, has resources of 6 billion tons of coal with a 5-meter-thick coal seam which contains a small amount of sulphur and a large amount of energy. This high-quality industrial coal is the "king coal" in Huainan and Huaibei. The average annual production of coal from the eastern and western areas of the field is 12 million tons. After the remaining parts of the field are built and put in service, the annual output of coal will be 24 million tons. The No 1 pit of the eastern part of the field has been put into production and its coal is transported to the Pingyu power plant via an extension road to Panji. This extension road is built especially for coal transport. The Pingyu power plant is an

on-the-spot power station. Its annual power output is 2.4 million kilowatt hours. This is one of the 70 key projects included in the sixth 5-year Construction Plan of China. After the completion of the project, the Pingyu power plant will be joined with the east China power network and share in the improvement of the power supply in east China.

Sketch Map Showing the Fuyang-Huainan Railway



#### View of New Railroad

In the west, the Fuyang-Huainan railroad starts from Fuyang, which is at the southern end of the Tanxi-Fuyang railroad, crosses the Xifeihe and Huaihe Rivers and the Jianghuai Plain and ends at the Huainan station, joining the Shuijiahua-Zhanglou feeder road. It is 126 km in length and has 12 stations, 22 medium-size bridges and 4 large bridges, including 2 super-large bridges. The super-large Xifeihe bridge has 100 arches and is 4,592 meters. The part of the bridge over the main river course has a lower truss structure with a 64-meter span, the largest. The remaining 99-arch part is made of prestressed and regular concrete beams. Another super-large bridge over the Huaihe River is 3,530 meters long; it is for both railroad and highway transport. Over the main course of the river is a 580-meter riveted-steel bridge with six double arches. Its largest arch is 96 meters long and has three rail expansion joints. The whole bridge has a magnificent appearance.

The Fuyang-Huainan railroad has been designed as a first-grade main line. From Fuyang to Panji a road bed has been built with another track planned for the future. The section from Xieqiao to Panji has been built with piers for a double track; however, the bridge is used temporarily for a single track. The section from Panji to Huainan already has a double-track bridge. The whole line is on the Jianghuai Plain with a mild slope; the maximum slope is 4 percent, the minimum radius of the road is 1,000 meters and the effective length of the in-service line is 850 meters with 1,500 meters of reserved line. The present equipment used is the Progress-type steam locomotive with a pulling force of 3,500 tons; in the future, diesel locomotives will be considered. The switching, blocking and signaling system is semiautomatic.

#### Traffic Diversion Duty

The line, which has been completed but not officially put in service, is temporarily used to ease the traffic burden on the older, heavily operated lines. The road switches Huaipai's coal, which had usually been transported south through Fuliji on the Tienjin-Pukou road, at Tanfu on the Fuyang-Huainan road. This diversion can ease the burden on sections from Fuliji to Bengbu and improve the transit ability of the Tienjin-Pukou railroad.

At present, the installation of signalization along the Fuyang-Huainan road is not entirely complete. The transport uses a temporary signaling system and manual signaling for arriving and departing trains and uses a telephone blocking method. To indicate occupied lines, simple roadmark plates are used. In-service trains are transferred to the Bengbu Railroad Subdivision at the Heiniwa Classification Yark for inbound transport. The section from Heiniwa to Liaojiawan is a double-track line; however, at present a blocking and signaling system is employed for a single track. In this section two regular, northbound trains with coal and two empty, southbound trains are in service so far, as are other trains carrying coal from the first pit of the Panji mine and some trains with railroad construction materials.

The Fuyang-Huainan Railroad project is now in its last phase of construction. This new line crossing the Jianghuai Plain will be shown on the map of China and will serve the four modernizations program.

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## TRANSPORTATION

### NEW PASSENGER COACHES DESCRIBED

Beijing TIEDAO ZHISHI [RAILWAY KNOWLEDGE] in Chinese No 5, 28 Sep 84 pp 16-17

[Article by Qi Yaokun [4359 5069 0981]: "High-speed and Light-weight Passenger Trains Between Guangzhou and Kowloon Welcomed by Passengers from Hong Kong and Macao and from Other Countries"]

[Text] The special express passenger trains between Guangzhou and Kowloon have light-weight and high-speed coaches which have been designed by the train production industry of China with new techniques and which have an advanced structure. Their wide and unopening windows give passengers a broad view; their seats have adjustable backs to add to passenger comfort; the air conditioning keeps the inside temperature constant; and the cable color television provides entertainment. These coaches have been in service for 4 years and have been welcomed and encouraged by Hong Kong and Macao Chinese as well as foreign passengers.

#### Improved Coach Design

Coaches for these trains on the road between Guangzhou and Kowloon have been replaced many times. Railroad transport between Guangzhou and Kowloon started in 1911. From then until 1949, when the New China was founded different kinds of old coaches had been used, most of them worn out, without enough inside light and with rough movements. The train traveled the entire distance of 182 km in 5 hours.

After the New China was founded, the rolling stock industries were established. The coaches produced were then put in service on the road between Guangzhou and Shenzhen; however, their quality was not yet perfect. Later on they were replaced by RZ-23 coaches with comfortable seats that had been produced in May 1964. These coaches had a natural ventilation system; thus, in summertime the inside was very hot. In July 1966 RZ-24 coaches were built with a steel body and central beam. Its weight was 1,822 kg per meter, and its speed was 120 km per hour. This coach had air conditioning, which provides much more comfort to the passengers, and was the first carriage with air conditioning on the line between Guangzhou and Kowloon. Usually these coaches were used to carry visitors to the Guangzhou Trade Fair. They were also used on the line between Beijing and Shanghai (train Nos 91 and 92). In 1979, using new

technology, the RZ-25, a light-weight and high-speed coach, was constructed. The date of manufacture was November 1979. These coaches were put into service on February 1980 as express train Nos 93 and 94. The structure, the speed and the airconditioning technique belong to the second generation of light-weight and high-speed carriages in our country. Later, these cars were put into service with train Nos 91, 92, No 93 and 94. Starting 1 July 1984, the coaches were also used for newly scheduled train Nos 95 and 96. The RZ-24 coaches, which belonged to the first generation of modern train carriages in our country, are still in service between Guangzhou and Shenzhen. The changes in the passenger trains on the Guangzhou-Kowloon line reflect the achievement in the construction of passenger coaches in China during the last 35 years since the People's Republic was founded

### Applying Bionics

Men utilize the principles of bionics to study and probe the structural characteristics of ecosystems; the transformation of energy and information control processes. Applying them to create or improve the mechanisms, instruments, construction, technological processes, automatic control systems, etc. is now quite common. The designers of the second-generation coaches for the line between Guangzhou and Kowloon used the same principles.

We see that birds and fish have a streamlined shape, which eases their movements in the air or on the water, reduces their resistance and speeds their flying or swimming, so that they can obtain food and avoid the attacks of others more effectively. For the high-speed carriage of a train the designers used the same technique. Instead of pressed vertical grooves and upper and lower straps on the walls of the carriage and on the cornices, the designers made a streamlined shape outside of the carriage, which has less resistance against air and enables the train to conserve energy and reach higher speeds.

A powerful man can hardly break an egg by holding it in his hand and a wheat or bamboo stem can hardly be broken by the wind, because both objects have a pipe-shape structure, which can withstand a larger force from the outside. The structure of the high-speed train is a round welded-steel section without a central beam. It has a 2-cm thick, wave-shaped steel floor on two carrying bridges. This structure has a characteristic similar to an egg shell or a wheat stem and can transfer any force equally to its entire surface. Thus, it can withstand a larger force, although its weight is lighter than the traditional structure. The second-generation carriage is 25.5 meters in length and weighs 97 kg less than a carriage of the first generation.

A woodpecker pecks a tree trunk several hundred times a minute, but has never had a cerebral concussion or a headache. A swordfish swims 30 meters a second and strikes an object with the power of 150 kg, but does not get hurt. These fish and birds have organs that are natural absorbers. The woodpeckers' brain is encased in a spongy bone filled with liquid, which can absorb the shock. The upper jaw of the swordfish has a honeycomb-like organism filled with viscous liquid, which absorbs the shock.



With this information and in consideration of the light weight and high speed of the carriage that must suit the requirement of movement at 160 km per hour, we accepted a new type of bogie with hydraulic absorbers and metal-rubber springs as the contact points. This structure absorbs the vertical shock (in other words, nodding action) created by the high-speed movement of the train as well as the shock over the length. This kind of bogie has side frames bent into a V-shape, which is called a V-bogie. It has 870-mm-high side-bearing springs, which are 280 mm higher than the original 202-type bogie (it has 590-mm springs). The axle-to-axle distance between side-springs is 2,400 mm, which is 400 mm longer than the original 202-type bogie. The newly designed height of the springs and the length between them can increase the resistance to leaning and reduces rocking vibrations and twisting shocks. Therefore, the trains move more smoothly and the comfort of the passengers is improved.

#### Improved Air Conditioning

The second-generation carriage, compared with the first-generation carriage, also has an improved air conditioning system.

The cooling system of the carriage uses freon-12, which is forced into circulation in a cooling machine in order to exchange temperatures. One of the main parts of the machine is its compressor. In both carriage RZ-24 and carriage RZ-25 on the Guangzhou-Kowloon road, the cooling system is located at separate points. The structures of both systems are similar, but their characteristics are very different due to the use of different compressors. The compressor in the first system was weak in its ability to exchange heat. In the 69 km which the train traveled from Guangzhou to Shilong, the compressor was already overheated and had to be cooled on an emergency basis. Nevertheless, the system was used only 2 months a year. In the second cooling system, a 4FS7B compressor is used. This type of compressor has a better performance, works with more stability and has a higher capacity, up to 3,000 calories per hour. The machine can operate in any season of the year. In addition, the coach has a more reasonable ventilation system and has improved thermo-sensitive and electric devices. Instead of the manual control of temperature, the new coaches have an automatic temperature control and the air conditioning equipment is appropriate.

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## TRANSPORTATION

### IMPROVEMENT OF CHANGJIANG RIVER SHIPPING SYSTEM REPORTED

Beijing GONGREN RIBAO in Chinese 5 Nov 84 p 1

[Report by Li Guisheng [2621 2710 3932]: "Ten Thousand Boats Set Sail On the Golden Waterway--Structural Reform of Changjiang Shipping Brings Encouraging Changes"]

[Text] Known as the golden waterway, the Changjiang River has taken on a prosperous appearance with ten thousand boats setting sail. This is a heartening change brought by structural reform of Changjiang shipping this year.

According to the figures, the freight volume and realized profits of the more than 20 ports along the Changjiang River from January through September increased by 12.4 and 68.5 percent respectively over the same period last year. Profits made by the Changjiang Steamship Corporation during the first three quarters this year increased by 72 percent over the same period last year. The profits realized by the Hubei Shipping Administration Bureau during the first half of this year were equivalent to a threefold increase over the same period last year.

The original management system of Changjiang shipping was government and enterprises combined, ports and shipping undivided. The ports merely served the shipping of the Changjiang main lines which were in turn managed by only a small number of shipping enterprises. This system was unfavorable to mobilizing the enthusiasm of various quarters to develop Changjiang shipping. Since the beginning of this year, the Ministry of Communications has carried out reform of the Changjiang shipping system: setting up the Changjiang Shipping Administration Bureau as an agency of the Ministry of Communications centrally responsible for the shipping, administration of the Changjiang main lines, port administration, treatment management of shipping lines, development planning, transportation markets and other administrative and management work; established the Changjiang Steamship Corporation with independent accounting; and port management is no longer under the shipping enterprises.

The new shipping system has broken through the division of local and central authorities and sole management. Local state-run and civil shipping enterprises have mushroomed. After the Minsheng Steamship Corporation was set

up in Chongqing, 8 shipping corporations and joint shipping corporations have been newly set up this year in the provinces and cities as well as some prefectures and counties along the Changjiang River. The number of specialized individual households in shipping has drastically increased to over 400,000.

With the separation of government administration and enterprises and the separation of port and shipping management in the Changjiang shipping system, authorities in charge of the ports, shipping lanes and shipping administration can provide services in shipping without restrictions. Chongqing Port has set up a port administration bureau responsible for the entire port within the municipal administrative division so that the public docks originally run separately by departments and local authorities are now centrally managed and docks of all sizes are comprehensively utilized. To facilitate docking of local vessels, the Wuhan Port Office established a special local shipping division which gives equal treatment and warm reception at the dock of every operation area whether they are ships from the Changjiang Steamship Corporation or local shipping, large or small freight, state-operated and collective enterprises or individual shipping households, which has greatly facilitated the navigation of local shipping. According to the figures of the more than 20 ports along the Changjiang River, the cumulative volume of local shipping completed between January and September this year has increased by one-third over the same period last year.

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## TRANSPORTATION

### SHAANXI OPENS NEW HIGHWAYS

Xi'an SHANNXI RIBAO in Chinese 21 Aug 84 p 1

[Report by Wang Boqing [3769 3134 3237]: "Shaanxi and Neighboring Provinces and Regions Open 46 Highway Passenger Transport Lines"]

[Text] Since the beginning of this year, communications and transportation departments in Shaanxi have adopted effective measures and actively opened direct highway passenger transport with neighboring provinces and regions, giving a great deal of convenience to passengers. So far, 46 interprovincial passenger transport lines with a total length of over 9,000 kilometers have been opened. Over 120 passenger transport cars are dispatched each day carrying passengers for more than 6,000 person-times.

In recent years the interprovincial flow of passengers has rapidly increased, but due to some old regulations which divide the provinces along provincial boundaries, there have been acute problems of the absence of passenger transport, passengers having to walk and peasants having to travel over long distances to market their goods. Faced with this situation, Shaanxi's communications and transportation departments at all levels have liberated their minds, set themselves firmly on reform, changed the long-time division of provinces along provincial boundaries and made the system open rather than closed. In accordance with the principle of enlivening the province internally and making highway connections with other provinces and on the basis of equality and mutual advantage, they have actively developed interprovincial highway passenger transport cars with the communications and transportation departments of neighboring provinces and regions and have successively opened interprovincial passenger transport lines from Xi'an to Nanyang in Henan, Tongchuan to Luoyang in Henan, Suide to Yinchuan, Shenmu to Tongsheng in Inner Mongolia and Shichuan to Wanyuan in Sichuan.

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CSO: 4006/126

## TRANSPORTATION

### BAYUQUAN HARBOR UNDER CONSTRUCTION

Shenyang LIAONING RIBAO in Chinese 16 Sep 84 p 1

[Article: Xiu Guojin [0208 0948 6855] and Zhu Wanjun [2612 5502 6874]]

[Text] How is the construction of the Bayuquan Harbor in Yingkou, one of the country's 70 key construction projects? On 4 September, this reporter comes here to investigate and finds that the harbor area is already taking shape in only 2 months time since construction began.

Construction of the Yingkou new harbor, one of China's eight major harbors, is making progress at a truly amazing speed. Construction began in June this year, and 2 months later the harbor area is changed beyond recognition. Even comrades of the Harbor Bureau's propaganda section, who visit the construction site every 10 days or so, keep saying, "It's changed, changed again!" We come to the work ship wharf, where we see trucks moving onto the wharf one after another, a huge crane lifting "I-shaped" concrete blocks, each weighing 2-1/2 tons, and loading them into a barge, and a tugboat towing the barge toward a breakwater in the distance. The work ship wharf still has its final stage of construction, stone surfacing, to be done, but it was already put to use in May. Standing on top of the parapet of the wharf, one can see that little remains of what was once a hill to the southeast. The isle to the north has been connected to land by a stone embankment. The breakwater some 1,500 meters to the west from shore has risen above sea level. The land to the east has extended more than 400 meters into the sea and become an approach levee to the harbor. The temporary southern breakwater, which stretches 581 meters into the sea from the edge of the approach levee is almost completed except for a top layer of stone slabs. The outer side of the breakwaters and revetments is neatly paved with rectangular hollow cement blocks to withstand the pounding of waves and make the water inside the harbor as smooth as a mirror. Nearly 100 work ships shuttle back and forth, and three dredges are busily at work. On shore, pneumatic drills and motors make a racket, and the place is bustling with activities. It is learned that directly taking part in harbor area construction are 10 specialized teams and more than 2,600 specialized personnel.

Construction projects outside of Bayuquan Harbor are also making good progress. The office building, dining room and garage have been completed for some time and are put to use. The microwave building, communications building, hostel and No 1 residential building are now being fitted up interiorly. In the residential area, two stories have been completed of six apartment buildings. The earthwork for the water supply system has been finished, and installation of equipment is being stepped up. Wide and smooth roads crisscross and extend to all parts of the harbor area.

12802

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## TRANSPORTATION

### LIAONING'S URBAN, RURAL HIGHWAYS

Shenyang LIAONING RIBAO in Chinese 15 Oct 84 p 2

[Text] In the 35 years since the founding of New China, transportation has developed rapidly in Liaoning Province. Transportation routes crisscross, and motor transportation reaches all parts of the province. Bus lines serve 94 percent of the townships and 74 percent of the villages in the province. Even remote mountainous areas such as Xinbin, Xifeng, Fengcheng, Kuandian, Xiuyan, Jianping, Jianchang and Harqin Left Wing Mongol Autonomous County have put an end to the past when the only way to go places was on foot.

In the early days following the founding of New China, there were only 155 buses in the province. Now the number is 2,231, a 13-fold increase. The volume of passenger traffic has increased from 610,000 passengers to 145.14 million passengers, a 238-fold increase. There were only 25 operating routes in the past. There are now 1,108 routes with a total length of more than 64,000 kilometers, basically forming a transportation network.

Highway freight transportation also has grown by leaps and bounds. At the founding of the People's Republic, the annual freight transportation was only 2.46 million tons. It is now 43.71 million tons, a 17-fold increase. The number of trucks has increased from 867 in 1950 to 7,602 now, an increase by 800 percent.

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TRANSPORTATION

BRIEFS

CIVIL AVIATION GROWING--In the past 35 years, civil aviation in Liaoning Province has grown out of nothing and rapidly from small to large. It is playing an important role in the economy and in exchanges with foreign countries. Shenyang had only one air route some 30 years ago. Now an air transport network has been formed with Shenyang as the center and extending in all directions. At present, Shenyang is served by 18 domestic and international air routes, covering a total air mileage of more than 29,000 kilometers, 10 times that in 1965. The number of aircraft has kept increasing, and now there are a considerable number of aircraft including "Tridents," contributing to the fairly rapid development of both passenger and freight traffic. In 1965, only 4,707 passengers traveled by air, and air freight totalled only some 1,700 tons. Now annual passenger traffic may reach the 190,000 level, and freight volume may exceed 5,500 tons, showing a 40-fold and 2.24-fold increase respectively. Specialized aviation has developed from aerial forest protection and a few agricultural items to 20 specialized air services for industry, agriculture, forestry and animal husbandry. [Text] [Shenyang LIAONING RIBAO in Chinese 17 Oct 84 p2] 12802

CSO: 4006/264



## CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

### WORLD ECONOMY AND CHINA OVER PAST 35 YEARS DISCUSSED

Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 10, 10 Oct 84 pp 1-5

[Article by staff commentator: "The World Economy and China; Celebrating the 35th Anniversary of the Founding of the PRC"]

[Text] During the 35 years since the founding of the PRC, the world political situation has been turbulent and there have been major developments in the world economy in the midst of intricate contradictions. Even though China's economy has experienced many difficult complications in the international conditions since World War II, it has still made great achievements. The position and role of China's economy in the world economy is becoming increasingly stronger.

#### I. World Economic Development and Contradictions

At the end of World War II, serious wounds remained in the economies of most capitalist countries and the appearance of the PRC and other socialist countries was a heavy blow to the capitalist system in the West. Since the 1960's, the struggle developed of the two superpowers contending for supremacy in the world. Although limited warfare has been continuous throughout the world, it has not in the end led to a full-scale world war. During the relatively peaceful conditions after the war, there were rapid developments in the economies of the Western capitalist countries for over 20 consecutive years and their rates of development far surpassed those of the prewar period. Certain basic political and economic factors of that time helped to create those rapid developments.

The capitalist world political and economic system formed after the war and headed by the United States was favorable to American political and economic expansion and thus played a definite role in promoting the economic growth of all capitalist countries prior to the beginning of the 1970's. The international currency system established by the Bretton Woods Agreement in 1944 enabled the U.S. dollar to become a reserve medium as serviceable as gold and all countries maintained fixed exchange rates, promoting the relative stability of international finance. The "General Tariff and Trade Agreement" signed in Geneva in 1947 and the repeated talks of this scope held on tariff reductions resulted in the elimination of trade barriers and promoted conditions of dynamic and stable growth in international trade.

The great developments made by postwar state monopoly capitalism strengthened to a certain extent the intervention in and regulation of economic life. The great economic crisis of the 1930's caused the bourgeoisie to generally feel that the end of the capitalist form of production had finally arrived. The traditional economics which had always thought that capitalist economies could be well regulated through the market mechanism was also frequently going bankrupt, and the Keynesian theories state regulation appeared. The Keynesian policy carried out by Western countries for over 20 years after the war played a major role in stimulating economic growth and alleviating economic crises.

Prior to the beginning of the 1970's, low-priced raw materials and especially low-priced oil was also a major factor in promoting the rapid growth of the Western economy.

The early 1970's was the turning point for the postwar Western economy and the end of its era of rapid economic growth. The above-mentioned basic factors promoting Western economic growth were thereupon gradually transformed into their opposites. The Western economy changed from rapid growth to "sluggish expansion."

Nixon's new economic policies of 1971 and the collapse of the currency system of the Bretton Woods conference were indications of a serious decline in U.S. economic supremacy. The postwar trend of trade liberalization and free floating capital carried out under absolute U.S. economic superiority was replaced by the many-centered trend of trade protectionism and monetary finance. Even though the Reagan government is striving to regain economic supremacy, it will be difficult to change this trend. The recent economic crisis in the capitalist world has aggravated the contradictions between the United States and its allies, and the Reagan government's attempt to regain economic supremacy has sharpened these contradictions. The Western economy is clearly becoming multi-centered.

The steps by Western governments to stimulate their economies, particularly through deficit financing and credit expansion, have promoted rapid economic growth but have also created serious inflation resulting in general "sluggish expansion" since the 1970's. Inflation has become the number one economic problem of Western countries and has forced the governments of countries such as England and the United States to reluctantly adopt severe retrenchment measures to control it. The major Western countries have clearly reduced their inflation rates during the past few years but have thus paid the heavy price of serious economic recessions and high unemployment rates. Financial deficits of all countries are now still very huge, which on the one hand causes the real threat of inflation rising again and on the other makes it hard for real interest rates to be reduced or for a large-scale upsurge of fixed asset investment to occur. The maneuverability of the governments of all countries in using financial or monetary policies to influence economic progress has become even more limited.

Low raw material prices caused opposition from countries which produce raw materials and resulted in the oil struggle and crude oil price rises during

the early 1970's. The era of low-priced oil was from then on gone, never to return. The tight world oil supply has been relaxed and oil prices have fallen somewhat during the past few years. It is possible that oil prices may tend to stabilize in the coming period. But judged by the long-range view, the needs of Western countries for the natural resources of developing countries including those for oil will also increase. The West has striven to lower raw material prices during the economic crisis since the 1980's and has enabled the actual prices of primary products in addition to oil to be reduced to their lowest postwar level. But long-term lowering of raw material prices will certainly create stronger opposition from developing countries.

All of the basic factors which created the downturn in the Western economy at the beginning of the 1970's are still developing. Although the Western economy is now in a new periodic ascending stage, it will still be difficult in the future to break free from the "sluggish expansion" and the crises may become even more frequent. All major Western countries are now striving to promote the development of new technology and industries and thus wish to be regarded as a new force in promoting rapid economic growth. The development of advanced technology has indeed created great possibilities for the rapid growth of productive forces. But it must also be seen that both the widespread utilization of new technology and the vigorous development of new industries require favorable domestic and international economic conditions. Whether this new high technology can effectively revitalize the Western economy still awaits the test of future practice.

The Soviet Union's postwar economic growth rate has been higher than that of the United States and has thus greatly reduced the disparities between them. Certain Eastern European socialist countries had generally achieved higher economic growth rates during 30 years since the end of the war. The economic growth rates of the Soviet Union and Eastern European countries have decreased since the 1970's and have been even slower since the end of the 1970's and during the 1980's. The gradual decrease of natural resources in the western part of the Soviet Union, the increase in development costs of natural resources in remote border regions, the insufficiency of the labor force and particularly the heavy burden of arms expansion and war preparations are factors which seriously restrict economic growth. Most Eastern European countries are still affected by deteriorating trade conditions and foreign debt burdens. The problem of economic structures and management systems being unfavorable to improving labor productivity and economic results exists in both the Soviet Union and Eastern Europe. Economic growth conditions in the Soviet Union and most Eastern European countries have definitely improved since 1983. They are both carrying out economic reforms to various degrees. But economic reform involves the transformation of major economic rights and interests and is restricted by factors such as social structure and spiritual and cultural conditions. The pace and effectiveness of economic reform may be different in the Soviet Union and Eastern European countries and the difficulties encountered by the Soviet Union may be somewhat greater. Economic reform will have a major effect on the future economic development of these countries.

Due to the sudden appearance of the Third World since World War II, great changes have occurred in the world economic and political structures. The economic growth of developing countries has been quite fast, their growth rates have been clearly higher than those of developed capitalist countries, their proportion of international trade has increased and their proportion of industrial manufactured product exports has risen. But most developing countries and especially the poorest ones still use primary products as their major export commodities and many still rely to a high degree on a single export product. The grave effects of colonialism on these countries have not been completely eliminated and the old international economic order is still a major obstacle to further economic development of Third World countries. Along with the deepening of the economic crisis in the capitalist world during the 1980's in particular, the costs of primary products on world markets have sharply decreased, the trade protectionism of developed capitalist countries has been strengthened and interest rates on international markets have increased, causing the unfavorable balance of international payments of developing countries to quickly expand and their international debts to sharply increase. Western countries have also reduced their aid, credit and investment in these countries. The serious economic problems which developing countries are faced with also make it difficult for Western countries to maintain markets in the Third World and even threaten the whole international credit and financial system. Further development of the whole world economy relies on changing present conditions in the Third World. Cooperation between southern countries is now making progress and this will have a profound significance in promoting the economic development of developing countries and in improving the role of Third World countries in world affairs.

Future world economic development depends on various complex conditions. The worldwide productive forces and the extent of the internationalization of production will generally continue to develop but this development will be restricted by various factors of an irrational and unstable international economic order. World economic development trends thus depend on one hand on S&T progress and the expansion of production capacity and on the other on the development of various economic and political contradictions and struggles, i.e. on continuous progress in the struggles of the Third World to achieve a new international economic order and of people throughout the world to achieve peace and social progress.

## II. The Role of China's Economy in the World Economy

Since the founding of the PRC, great achievements have been made in various areas such as economic construction and social development. Through carrying out the socialist revolution and large-scale economic construction, a strong socialist economic system and rather independent and complete industrial and national economic systems have been established and a fairly high economic growth rate has been achieved. We have relied on our own strengths, changed the past long-term inability of the masses to maintain minimum food and clothing standards, eliminated dire poverty and basically guaranteed the food and clothing needs of 1 billion people. We have only 7 percent of the world's cultivated land but maintain the livelihood of a quarter of the

world's population. From an "oil-poor" country, we have entered the ranks of the world's major oil-producing countries. We have successfully tested atomic and hydrogen bombs and launched man-made earth and communications satellites. Hygiene and physical training have vigorously developed and the people's health has clearly improved. The Chinese people have heroically stood up before the whole world.

China's great accomplishments in economic construction were hard-earned and underwent a very difficult and complicated process. Through economic blockades and military threats, imperialism and hegemonism long obstructed the successful accomplishment of our economic construction; due to a lack of experience, certain errors in strategic policy also occurred in our socialist construction. But we have finally overcome the foreign obstacles, corrected our domestic errors and through summarizing the rich experience of our successes and failures and those of foreign countries since the Third Plenum of the 11th CPC Central Committee, have gradually established a socialist road built on distinctive Chinese features. Various forms of the joint production contract responsibility system based on socialist public ownership have been carried out in rural areas enabling agriculture to make breakthroughs in the past 5 years, reversing the long-standing conditions of stagnation and hesitation of agricultural production and transforming it from only stressing grain to comprehensive management of farming, forestry, animal husbandry, sideline production and fishery and of agriculture, industry and commerce and from a self-sufficient and semi-self-sufficient economy into one of commodity production. The brand new rural conditions have been expanded into the cities. State-run enterprises are carrying out the system of substituting taxes for profits and enterprises are gradually carrying out the contract job responsibility system, gradually changing the long-standing equalitarian conditions of enterprises, staff members and workers all eating out of "one bit pot," enabling the initiative of enterprises to be expanded and the enthusiasm of staff members and workers to be greatly improved and strengthening economic results. Economic reforms are unfolding and brand new conditions of vigorous development are emerging in the four modernizations.

The PRC's foreign economic relations have developed very quickly. We have actively developed equal and mutually beneficial economic cooperation based on self-reliance with all countries throughout the world since 1978, striven to increase exports and actively imported foreign capital and advanced technology, realizing an open door economic policy and enabling our economy to more quickly enter the ranks of the world economy. Our annual export trade growth rate has been quite high during the past 5 years, enabling China's position among the world's exporting countries to rise rapidly. We have expanded businesses such as import and new materials processing, new materials assembly, joint and cooperative management and compensatory trade and developed the overseas businesses of contract projects and labor cooperation. Our international tourist trade has also vigorously developed. We have also opened up special economic zones and many port cities, forming a forward position for the open door policy in the vast coastal areas.

China's beginning to carry out the open door economic policy at the end of the 1970's and the continued rapid development of our foreign economic

relations suited the development of our international political and economic conditions. We established and developed economic and trade relations with many countries after the founding of the PRC, but various forms of blockade policies imposed on us by certain imperialist countries headed by the United States greatly limited our foreign economic relations of that period. There were great developments in our economic and trade relations with the Soviet Union after the founding of the PRC, but the Soviet Union carried out hegemonistic policies after the 1960's, Sino-Soviet relations deteriorated and the Soviet Union also blockaded us. Our foreign economic relations were clearly limited by the international conditions and various objective factors of that time. We finally recovered our legal standing in the U.N. in 1971. Sino-Japanese relations were normalized in 1972, we officially established diplomatic relations with the United States in 1979, and economic and trade relations between China and major capitalist countries have thus been enabled to develop quite rapidly. Along with the development of the struggle of Third World countries to establish a new international economic order and the constant strengthening of the economic forces of developing countries, our economic relations with Third World countries have also further developed.

China's beginning to carry out the open door economic policy at the end of the 1970's was also consistent with progress in the development of our socialist economic construction. We had by then built the national economy into a fairly complete socialist industrial system. The large-scale open door economic policy which we carried out under these conditions had a fairly solid material base and social power. The policy we have adopted of taking self-reliance as the major factor and seeking foreign aid as a supplement relies mainly on domestic markets and resources. The serious economic recession in developed capitalist countries and the world economic depression of the past few years have thus naturally also formed corresponding obstacles to the rapid development of our foreign economic relations, but the unfavorable effect of world economic conditions on China has obviously not been as clear as it has on certain other developing countries. We have established a strong, publicly-owned socialist economy, and the status of the socialist economy in the national economic ownership structure is absolutely superior. In order to invigorate our economy under these conditions, we have developed a certain number of Chinese-foreign industrial-commercial joint ventures, plus wholly-owned foreign enterprises to supplement the socialist economy; this is fundamentally different from the conditions existing during our early post-liberation period in which the publicly-owned socialist economy had not yet been fully developed. Carrying out a large-scale open door economic policy based on a strong socialist economy and an independent national economic system has provided the major prerequisites to utilize foreign funds, technology and markets and to promote development of the economy of our vast coastal and inland areas. We have used certain long-term, low-interest foreign loans in the past few years to successfully carry out certain large-scale construction projects with large investments and long construction periods, imported advanced technology and learned certain advanced enterprise management experience and foreign trade work skills. The basic way for us to realize the strategic duty of quadrupling the gross annual output value of industry and agriculture throughout the country by the end of the century will be through technical progress. The present rising tide of the new

world technological revolution has provided good development opportunities for our modernization.

China's economy will more prominently demonstrate its importance in future world economic developments. Our carrying out of the open door policy and active development of foreign economic relations are closely connected to our foreign policy of maintaining independence, keeping the initiative in our own hands and peacefully coexisting. These policies are in accord with our conditions and interests and also with the interests of economic development throughout the world. We will fully utilize our international economic and political conditions to build the socialist material and spiritual civilizations. Our creation of a socialist road founded on distinctive Chinese features will certainly have a profound effect throughout the world.

### III. Face the World and Welcome the Future

During the 35 years since the founding of the PRC, great changes have occurred in the world, in China and in the economies of the world and China. These changes have basically changed the appearance of the whole world. China's world economic research work has been gradually developing along with our foreign economic relations and the whole world's economic development.

For a fairly long period of time in the past, serious dogmatism and "left" trends have existed in world economic research. During the initial period of the founding of New China, we proposed the study of Soviet slogans. It was absolutely necessary to study the experience of the Soviet Union's revolution and construction; but copying the Soviet Union's past patterns and methods was seriously divorced from China's actual conditions, as we brought in methods unsuited to our national conditions and even adopted wholesale certain unsuccessful Soviet Union experiences, seriously hampering our economic construction. As to certain experiences of Western capitalist countries in developing their economies and Western bourgeois economics, we persistently adopted an attitude of total denial and complete rejection. We have basically corrected the aforementioned dogmatism and "left" trends during the past few years. But in the areas of foreign economic work experience and Western economics, the blind tendency to neglect analysis and criticism which still exists to a certain extent should be brought to our attention. The present Western system of economics has been further debased. Individual principles and methods of Western economics and certain economic development and management experiences are of course suited to certain needs of modern production socialization and can provide references for us. We must study all successful and advanced foreign experience. But we must increase our study of all foreign things and absorb them analytically and critically.

Along with the further development of China's economic construction and foreign economic relations, our world economic research work will be faced with more honored and difficult duties. We will further carry out the policies of integrating theory with practice and seeking truth from facts in our study of the world economy. We must conscientiously study both the past

world economy and even more thoroughly the present and future world economy. We will serve China's modernization, our open door policy and our diplomatic policy of maintaining our independence and keeping the initiative in our own hands and make contributions to world peace and the wellbeing of mankind.

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CSO: 4006/256



TAIWAN

PRESIDENT CHIANG MEETS ROK FINANCE MINISTER

OWO70245 Taipei Domestic Service in Mandarin 2300 GMT 4 Mar 85

[Text] President Chiang Ching-kuo pointed out that economic cooperation between the Republic of China and the Republic of Korea not only is conducive to the sustained economic growth of both countries but also to the economic stability and development in the western Pacific region.

President Chiang made this remark when he met with Korean Finance Minister Kim Man-chae and (Chon Tae-yun), chief of the Korean Finance Ministry planning department, at the Presidential Palace on the afternoon of 4 March. The Korean officials are in the Republic of China to attend the 18th Sino-Korean economic cooperation meeting. After welcoming them, the president said: China and Korea have identical [words indistinct] and have always maintained good diplomatic relations. The governments and peoples of the two countries cherish freedom and democracy which have enabled them to maintain close contacts and cooperation in various fields. The annual Sino-Korean economic cooperation meeting, which has been held since 1966, has given the two countries an opportunity to study and discuss questions concerning economic cooperation as well as enhanced the scale of economic cooperation through frank discussions and exchanges of views, thereby maintaining the economic stability and development in the western Pacific region.

Kim Man-chae thanked the president for receiving them. He also stressed the importance of the Sino-Korean economic cooperation meeting in expanding economic relations between the two countries.

CSO: 4006/453

TAIWAN

PAPER DISCUSSES EXPORTS TO U.S. MARKET

OW080421 Taipei CHING CHI JIH PAO in Chinese 2 Mar 85 p 2

[Editorial: "Attach Importance to U.S. Demand for Information About Exports"]

[Excerpts] The Board of Foreign Trade under the Ministry of Economic Affairs announced yesterday that in order to export 150 kinds of Chinese products to the United States duty-free under the general system of preference (GSP), manufacturers and suppliers concerned should coordinate closely with each other to provide information on supply, sales, labor, wages, and size of the U.S. market so that such information can be passed on to the American side as required before the May deadline.

The United States has put forward the demand at this time because it has revised the GSP by extending the period of this system to 8 1/2 years from 4 January 1985. According to the new regulations, in the next 2 years the administrative department concerned will conduct an "overall examination" of the products of those countries receiving preferential treatment. The "overall examination" will cover the competitiveness of the products and the extent of liberalization of the commodity and service markets in those countries. The results of the "overall examination" will be submitted to the U.S. president, who will determine which products coming from countries receiving preferential treatment will be restricted in the U.S. market according to the new regulations; that is, which products will be considered as "graduated" and should no longer enjoy duty free treatment.

In addition to supplying information to the United States for its reference, it is suggested that the Board of Foreign Trade ask experts to study and analyze the data and compare our situation with that of our competitors such as Korea and Hong Kong. Thus, we will be able to present the results of our studies and express our views to the United States and will not be totally subjected to a U.S. decision and will not put ourselves in a passive position when discussing the matter with the United States.

Last year, the amount of our exports to the United States under the duty free GSP system was as high as US\$3.2 billion, accounting for 26 percent of total exports to the United States from countries receiving preferential treatment. Our country still enjoys the most preferential treatment. From our own point of view, our exports to the United States under the duty free system were more

than one-fifth of our total exports to that country which amounted to some US\$14.7 billion. Therefore, whether we can continue to receive this duty free treatment is a question of utmost importance to the expansion of our exports to the United States. The demand for information is only the first step that the United States has taken after the revision of the GSP, and more demands are expected in the future. In view of this, we urge large exporters to train their own personnel in international business law to be able to undertake marketing responsibility. We also hope that the Board of Foreign Trade will establish special organs to hold foreign trade talks, recruit more international law experts and people versed in foreign languages and with foreign trade expertise, and strengthen cooperation among exporters. In addition, it is imperative to constantly study the problems encountered in foreign trade and adopt the strategy of unified command and coordination so as to safeguard our due rights and interests when holding foreign trade talks and to minimize the harmful effects we must suffer.

CSO: 4006/453

TAIWAN

EXECUTIVE YUAN APPROVES CAR INDUSTRY PLAN

OW010321 Taipei CNA in English 0311 GMT 1 Mar 85

[Text] Taipei, 28 Feb (CNA)--The Republic of China will lower import tariff on cars below 3.5 tons in weight annually from the present 65 percent to 30 percent in 6 years.

As to the countries restricted for this nation's traders to import cars, the government has decided to maintain the present status and will discuss the policy in 1991.

The executive Yuan Thursday approved the 6-year car industry development plan at a regular meeting.

The plan also provides that self-production rate of sedans will remain at 70 percent in the first 3 years (1985-1988) and reduce to 50 percent in the later 3 years (1989-1991).

Tariff on auto parts will be averaged at 35 percent in the first 4 years and will be cut to 25 percent in the 6th year through annual reductions.

To introduce auto manufacturing technologies from abroad, the government also welcomes foreigners to invest in this nation's car industry. However, their partners must be Chinese nationals if some of their products will be sold locally. If their products are only for exports, then their partners would not be necessary Chinese.

Under the plan, the government will also make measures to encourage Chinese manufacturers here develop important auto parts in order to upgrade auto products.

The plan, through tariff reduction, is aimed at lowering protection to the industry and advancing competitiveness in world markets.

CSO: 4020/135

TAIWAN

BRIEFS

FISHERY ACCORD WITH MICRONESIA, INDONESIA--Taipei, 7 Mar(CNA)--The fishery cooperation agreement between the Republic of China [ROC] and Micronesia has been renewed and the range of cooperation expanded, fishery sources said Thursday. Taiwan Provincial Fishery Bureau said under last year's agreement, only four fleets of purse seine fishing boats from the Republic of China were allowed in Micronesia's fishing zone. Following negotiations between both sides, the bureau noted, an unlimited number of tuna fishing boats under 300 tons were added to the new agreement. In addition, Micronesia also agreed to lowering fees this nation's fishing boats must give to fish in that Pacific area, the bureau added, without specifying how much was cut. Meanwhile, the Executive Yuan also approved Thursday a 2-year extension of the agricultural cooperation agreement between the ROC and East Java, Indonesia, retroactive to No 7, 1984. According to a memorandum signed by representatives of the two governments on 8 February, the ROC will send 13 agricultural and fishing experts to East Java to help them develop fish culture, horticulture, animal husbandry, and soil conservation. [Excerpts] [Taipei CNA in English 0236 GMT 8 Mar 85 OW]

INVITATION TO FRG FAIR--Taipei, 7 Mar (CNA)--The municipal government of Hanover, West Germany, has invited this nation's industrialists to set up their European headquarters, sales offices, marketing posts or manufacturing plants in Germany for better access to the world's markets and their advanced technologies. The Hanover government has also invited government officials and entrepreneurs of the Republic of China to attend a special briefing and reception in Germany to acquaint them with the commercial park at the trade fair, a newly created German industrial site for high technology investments. The briefing will be held in Hanover on 18 April, the second day of the Hanover fair. [Excerpt] [Taipei CNA in English 0246 GMT 8 Mar 85 OW]

1984 STRATEGIC INDUSTRY EXPORTS--Taipei, 4 Mar (CNA)--The Republic of China's products in the field of strategic industries in 1984 were valued at NT dollars 324.6 billion (U.S.\$8.12 billion), accounting for 27.5 percent of the exports value for manufacturing goods, and a hike of 27.9 percent from the 1983 level. The Council for Economic Planning and Development the nation's highest economic planning and evaluating organization, said Sunday that in terms of export structure, electronic products accounted for 21.4 percent of the exports value. Total exports of manufacturing products reached NT\$1,178.8 billion (US\$29.47 billion) in 1984. [Text] [Taipei CNA in English 0942 GMT 4 Mar 85 OW]

ELECTRONICS EXPORTS--Taipei, 10 Mar (CNA)--Exports of electronic products from this country broke the NT\$200 billion (US\$5 billion) mark last year, becoming the top category of items in foreign trade. The exports, totaling NT\$216.27 billion, grew 29.1 percent over those of the previous year, according to the Council for Economic Planning and Development. Imports of electronic goods last year reached NT\$104.18 billion (US\$2.5 billion). Among the items imported, parts of electronic calculators climbed by 96.9 percent from 1983 and those for semi-conductors and test instruments increased by more than 50 percent over 1983. Computers and peripherals were the best export items in the electronics category, amounting to NT\$30 billion, last year. However, some products' exports declined last year, including black-and-white television sets, electronic toys, video game machines, and color TV tubes. The export structure for electronic goods is also changing because the value of exported telecommunications items, computers and test instruments increased from 15.3 percent of the total exports of electronic goods in 1983 to 21.4 percent of the total last year, statistics of the council show. [Text] [Taipei CNA in English 0250 GMT 11 Mar 85]

CSO: 4020/142

HONG KONG MEDIA ON CHINA

HONG KONG ASPECTS OF CHINA'S ECONOMIC REFORM

Hong Kong JINGJI DAOBAO in Chinese No 44, 5 Nov 84 p 29

/Article by Ni Shaojie /0242 1421 0267/: "Break Out of Limiting Circumstances and March Towards Prosperity; Discussion of China's Economic Reform and Hong Kong"/

/Text/ China's economic reform can accelerate the pace of making Chinese society prosperous and speed up the pace of the four modernizations. For a long time China's productivity has been under the influence of many stifling dogmas and its development has been less than ideal. In the 30-odd years since liberation, many key production materials have been in shorter supply than during war rationing. There have been no further improvements in the quality of the life of the people and the goal of satisfying the people's cultural and material needs is still far off with the gap continuously widening. If the state economy does not develop quickly and the people's lives do not improve rapidly then the state cannot be prosperous and strong. China's economic reform will clear away obstacles on the road ahead, liberate the state's latent productive power from the fetters of various ultra-"leftist" views and eliminate in particular some ossified urban economic regulations. We can see from the published document /about China's economic reform/ that these reforms originate from a desire to make the people happy and the state prosperous and strong. They draw a beautiful picture of a China with a bright and unprecedented economic future.

First, the Chinese Government is determined to implement the "economic responsibility system." This is a correct decision that breaks old molds. It relates to a series of reforms in the wage, administrative and enterprise management systems and market regulating and pricing. In particular, sanctioning the laws of market development avoids the dislocation of commodities in production and marketing and the necessity of recalculating the true value in the international market, and also avoids, to a great extent, lagging behind the actual situation in the international market, but not to the point of our being placed into a state of passivity or restricted in anyway. The significance of this for international trade is that an emphasis on turning inaction into action will provide more opportunities to enrich the country and enliven production and the economy.

The 3d Plenary Session of the 12th party Central Committee proposed "breaking the tradition of putting the planned and commodity economies in opposition";

"the planned economy must consciously adhere to and utilize price laws"; "to reform the current planned system we must as needed gradually reduce the scope of ordered planning and expand the scope of guided planning." "The economy can be enlivened only by fully developing a commodity economy" was also stressed. All of these proposals have a definite role in eliminating abuses in the urban economy and price system that hamper the development of productivity and thus fully guarantee that all enterprises can be vigorous and easily achieve results. It is undeniable that the whole Chinese economy will have to undergo many hardships before finding its own way. It is estimated that through this bold and decisive reform, there will be a tremendous transformation of industrial and commercial enterprises within 3 to 5 years in the direction of better health, wealth and prosperity.

Everyone knows that an effective way to guarantee a successful business is to strengthen its business activities, emphasize efficiency above all else, separate business from politics, apply what is known, and have a skilled understanding of the mutual effect and changes of market adjustments and price policies. China's price reform allows commodities to reflect real value and demand. In this way, market forces will change from being market adjustments and each rise and fall will have a basis. This will greatly transform the present irrational commodity pricing system. An even more important point stressed by the reform is that the development of production must be based upon what the state economy can bear, making the reform more practical. In a planned and gradual way, the people's real income will have to rise gradually and the state will slowly encourage people to consume more to improve the quality of life if conditions warrant. After a long time, the Chinese people will generally know how to produce, consume, spend and earn money, and China will take her place in the forest of powerful nations and wealthy people.

We should regard the reform as a sound strategy suited to the problem. Nevertheless, success still depends on a uniform voice throughout the land, thorough implementation of the requirements of the reform, and a desire to succeed. At the same time we must not forget to reinforce our efforts to find additional international trading partners and establish good trade relations with them. We must strengthen our legal spirit, develop a commercial moral code, abolish bureaucratic habits, uphold honest practices and exhibit a magnificent demeanor. Then we can reduce conflicts that might arise in international trade.

After 1997, Hong Kong will maintain its current economic system and life style unchanged for 50 years. Following implementation of China's economic reform, the people's quality of life will rise, economic ties with Hong Kong will naturally be closer and China's inland goods and resources can support Hong Kong's economy, satisfy the needs of her residents, and promote the prosperity of Hong Kong's trade, and social stability. Additional Hong Kong goods can be sold in the huge inland markets. This has a role in promoting industrial investment and expanding production, in turn encouraging lively developments in financing and import and export trade. At present, inland China is Hong Kong's greatest source of imported goods. It is also the second largest market for Hong Kong's exports. This is the result of mutual encouragement. The Hong Kong economy can become a developed asset to China because Hong Kong's modernized facilities in the economic, telecommunications, trade and other areas



can be utilized. Under China's wider open door policy, economic cooperation and the mutual support of goods and materials will further increase and exchanges will grow daily. Hong Kong's position will become increasingly important, whether before or after 1997. Maintenance of prosperity and stability is the common aim of all Hong Kong residents.

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CSO: 4006/112

HONG KONG MEDIA ON CHINA

BANK OF CHINA COLLECTS HK 10 BILLION FOR POWER PLANT

Hong Kong TA KUNG PAO in Chinese 20 Nov 84 p 4

/Article: "Foreign Investment Funds Raised for Guangdong Nuclear Power Plant, Bank of China to Raise HK 10 Billion in Hong Kong; Loan Repayment Period Revealed to be 20 Years, Banking Circles Describe It As Largest Banking Group Sum Ever Lent in Hong Kong; Next Month China Power and Guangdong Will Sign Contract Formally Establishing a United Company"

/Text/ Reliable sources have revealed that the main Beijing Branch of the Bank of China /BOC/ is in Hong Kong right now collecting the necessary foreign investment funds for a long term banking group loan to construct the Guangdong Nuclear Power Plant, estimated to be HK 10 billion.

Hong Kong's banking circles have described the loan as the largest bank loan in Hong Kong's history. It is reported that construction of the Guangdong Nuclear Power Plant will cost approximately HK32 to 36 billion, two-thirds of which will be foreign funds and the remaining third, renminbi. The state bank is collecting funds for HK 5 billion of the foreign portion to be used to purchase a reactor from the French /Famatong/ Co. The British General Electric Co will supply a conventional generator for HK 5 billion. The British Export Credit Insurance Office will collect the funds. The remaining approximately HK 10 billion in foreign investment will be collected by the BOC.

Our sources said that the amount collected by the BOC will be a long-term loan, to be repaid 10 to 13 years after the power plant goes into operation. Loan repayment will take 20 years since it is estimated that the power plant will commence operations in 1991.

The China Electric Co, Ltd of Hong Kong has reached an agreement with the Guangdong side. The power plant will have a steady source of foreign exchange income, because once the plant is fully operational, Hong Kong will purchase 7 billion kw of electricity every year. There is no cause for doubting that the loan can be repaid.

It was reported that the interest rate on this huge bank loan attracted the attention of banking circles.

Our sources said that everything is currently in order to prepare for construction of the Guangdong Nuclear Power Plant. The discussions between China Electric and Guangdong Province are only regarding some minor technical questions and it is estimated that signing of a formal contract will take place in the middle of next month and a united company will be set up.

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CSO: 4006/112

PRESS REPORTS BEIJING TELEPHONE PROBLEMS

Hong Kong TA KUNG PAO in Chinese 20 Nov 84 p 2

/Article: "Beijing Paper Urges Residents, Please Don't Cook 'Telephone Congee'"

/Text/ There was a complaint in the Chinese press on Monday that if local residents would only "boil telephone congee" less, then China's telephone system, which has busy lines and bad connections, would be more effective.

A short commentary in the RENMIN RIBAO sought to rectify the increasing number of people who chat on the phone. It said, "Please restrict your calls to 3 minutes."

An article entitled, "China's Phones that Give People Headaches" in BEIJING ZHOUBAO /Beijing Review/ said, "It is not easy to make a phone call in China. Sometimes placing a call makes normally gentle and polite people lose their temper."

In the world's most populous country there is an average of only one telephone per 200 people. Common telephone problems include having to wait too long, hearing busy signals, echoes and static, getting cut off and wrong numbers.

There is no direct intercity and overseas long distance phone service except for that in some special economic zones in Guangdong and Fujian.

The problems have been particularly notable and the demand for phones greater since China opened to the outside, invited foreign companies to set up offices, and peasants to engage in commerce.

The RENMIN RIBAO article said, "Experts say that besides a shortage of phones and lines, a major cause of phone problems is that people have no idea how long they talk on the phone."

BEIJING ZHOUBAO quoted an official from the Bureau of Posts and Telecommunications: "Some people have no notion of time."

Right now, a local call costs only RMB 4c, regardless of the length of the call.

The RENMIN RIBAO proposes that the cost of a call should be calculated according to length. Additional money should be added after 3 minutes.

The majority of China's 5 million phones are public phones, installed in stores, hubs of public transportation, restaurants and hotels. Private phones are available only to foreigners, government officials and party members with special privileges.

Long lines of people waiting to use public phones are a common sight in Beijing's train station and airport. A person may stay on the phone for half an hour or more.

The Chinese Government says it plans to invest 80 billion yuan (\$29.6 billion) in the next few years to modernize its phone equipment. Some of China's phone equipment dates back to the 1930's.

This plan means the installation of almost 34 million phones and the purchase of foreign-made computerized switchboards, digital microwave stations, satellite telecommunications equipment and optical fiber lines by the end of this century.

A Ministry of Posts and Telecommunications official said that direct international phone service will be available next year in Beijing, Shanghai, Tianjin and Guangdong.

Earlier this month, the magazine OUTLOOK /LIAOWANG/ said, "For many years China has had undeveloped markets and an undeveloped economy. Most administrators have no idea of the role played by communications in modern society."

It said, "Many people believe that a telephone is a luxury and they do not realize that phones are essential tools to production and social activities."

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HONG KONG MEDIA ON CHINA

CAUTION ON PRIVATE MONEY HOUSES DISCUSSED

Hong Kong WEN WEI PO in Chinese 28 Nov 84 p 3

[Article: "We Should Be Discreet About Private Money Houses"]

[Text] According to reports from newspapers in the hinterland, small money houses run by individual households have appeared in the small cities and towns near Wuhan City. Their activities of handling savings and credit and loans for the nearby collective enterprises have been greatly welcomed.

The matter of individual households running money houses is an extremely fresh one. In a developed commercial society, small money houses would not have existed at all. It is because this is a very low-level form of monetary business. The major reason why it is able to sprout is because the banking service in China has failed to catch up with the situation of the economic reform. Many places lack the banking services which can promote the development of the local industry and commerce. Even if there are banks, these banks are like government organs. Instead of serving the depositors and the collective enterprises, the banks set up many rules and regulations of control, restriction and oppression. Sometimes, they ask all kinds of questions when the depositor wants to withdraw money. As a result, the depositors do not want to put money in the bank.

Presently, the interest for the bank savings is low, while the interest rate for loans is high. The gap between the interest rate for savings and the interest rate for loans is big. Because it is a monopoly, no competition is necessary. This is unfavorable to the prosperity of China's economy.

At present, the Central government has decided to reform the banking system to overcome the above mentioned shortcomings and to encourage competition among banks.

However, there will be great sequelae and greater abuses if we allow the small money houses run by individual households to enter into competition with the banks. Even in a capitalist society, strict regulations are set up to control small money houses and to prevent them from robbing the bank's business.

This is because the bank does not have a complete supervisory and administrative system. We must maintain a definite proportion of circulating funds, and must have regulations concerning the standards of monetary loans. Controlling the bank will ensure normal order in the economy of the whole society, and prevent an economic standstill or a major decline of the whole society as a result of the closing of banks.

When the banking business is replaced by individual small money houses, the first problem is one concerning skilled personnel. This is because the individual households do not have the knowledge of bank management, and do not have sufficient commercial news. If a money house provides a large amount of loans to those undertakings which are temporarily and falsely prosperous but which will take unexpected turns, then the money house will close down when the business of those undertakings collapses, and all the depositors who have deposited money in this money house will "suffer the same fate." Secondly, the small money houses do not have a strict system of management. If there is a large sum of deposits and if there is corruption, then the consequences will be unthinkable.

It is unsuitable to "relax" on the issue of money houses. "Relaxation" will bring about confusion. It is necessary to advocate competition among banks. But we must think clearly before we allow competition between the uncontrolled small money houses and the controlled banks.

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HONG KONG MEDIA ON CHINA

GUANGZHOU'S TERTIARY INDUSTRIES RISING

Hong Kong WEN WEI PO in Chinese 16 Nov 84 p 3

/Article: "Guangzhou's Tertiary Industry Swiftly Rising; Last Year Tourism Alone Made 300 Million Yuan, Hotels Annually Put Up 10 Million Chinese and Foreign Visitors"

/Text/ For the convenience of Chinese and foreign travellers and the livelihood of the local people, Guangzhou is actively developing tertiary industries. In 1983 the income from tourism services in the whole city was more than 300 million yuan, double that of the 1978 figure.

At present, 1.55 percent of the city's population and 6,500 state enterprises, collective and individual households engage in occupations related to the food and beverage trades. More than 280 peasant families have opened tea houses, cafes and restaurants. Covered foodstands are all over the large streets and small alleys, not allowing the statement "Eat in Guangzhou" to be void of meaning. Right now, famous dishes and fine food can be sampled not only in renowned restaurants, but mom and pop shops, brother and sister stalls and peasant family stands can do everything to make a feast and create fine delicacies.

Hotels and restaurants are also springing up in Guangzhou. There are more than 10,000 hotel rooms and several tens of thousands of beds in the city right now. Every year more than 10 million Chinese and foreign guests come to the city.

Guangzhou also provides services to peasants and businessmen coming into the city from elsewhere. In the past year, 46 trade warehouses and 40 agricultural and sideline products wholesale and retail markets were set up in the city for businessmen from the country's 21 provinces and municipalities. At present more than 40 percent of the city's fish, meat, poultry and eggs are provided by suburban peasants and other provinces.

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HONG KONG MEDIA ON CHINA

MORE PAID LEAVE FOR GUANGDONG CADRES DISCUSSED

Hong Kong TA KUNG PAO in Chinese 28 Nov 84 p 3

[Article by Tian Ming [3944 2494]: "More Paid Leave for Guangdong Cadres"]

[Text] The Beijing government organ announced a new policy stating that as of the new year, lunch breaks will be shortened to one hour in order to meet the needs of external work.

This reform was just right. In the past, the cadres working in the government organs and enterprises in China all took mid-day naps. This was well known throughout the world. The lunch break everyday was roughly two to two and a half hours long. While some people felt that it was a good habit to take mid-day naps, opinions differed as to whether it was good or bad that the working personnel were full of energy in the afternoon.

In any case, it was a frequent occurrence when those people who were anxious to take care of their business were denied entrance because the cadres and staff members had to have their mid-day naps. In recent years, more foreign organizations have been stationed in Beijing, and more business exchanges with foreign countries have been undertaken. The foreigners had a lot of complaints about being denied entrance.

Two years ago, the foreign correspondents stationed in Beijing once reported the following situation at a national press conference. They criticized a specific instance about the long mid-day break of the CAAC Ticket Office during which no tickets were sold. Some foreigners arrived at the office at 11:30 in the morning to purchase a ticket. The workers handled the ticketing in an unhurried manner. Then, by noon time, lunch break was announced and the customers were asked to return in the afternoon. The foreigners criticized that the Chinese business organizations were like the "government offices in feudal China." In fact, they were right. The civil aviation bureau was a government department. In those days, before it became an enterprise, was it not indeed a "government office"?

There are more disadvantages than advantages to a lunch break that is too long. Presently, Beijing has already become an international city and has become involved with more foreign affairs. A reform of the administrative system is certainly necessary. Although a mid-day nap is a trivial matter, yet stopping business operation for a long period of time during the day does have a great impact, and must be changed.

This reform will also bring about some new problems. The cadres and staff members will have to eat their lunch in one hour. This means that the cafeteria should offer faster lunch service, and more fast food restaurants with inexpensive and good food should be opened. After all, we cannot let the large numbers of cadres and staff members work on an empty stomach.

Another advantage to pushing the new policy is that the pace and efficiency of work of the various functions in society will be accelerated. This is in line with the principle of "efficiency is life, and time is money."

Shortening the lunch break will definitely enable the workers to get out of work earlier. This offers an advantage to the cadres and staff members in arranging their sparetime life.

In a southern city like Guangzhou, the lunch break is especially long during the summer. Some lasts three to three and a half hours. The workers then work till 6 pm. This way, the cadres have greater difficulty in arranging their livelihood.

At present, the system of the government organs in Guangzhou is also being changed. This year, the most prominent change is the increase in paid annual leave, from 10 days to 1 month according to length of service, for cadres and staff members of the provincial and municipal organs and professional units. The provincial and municipal organs have formally announced that those with 10 to 20 years of service will have 10 days, those with 20 to 30 years of service will have 15 days, those with 30 to 40 years of service will have 20 days, and those with over 40 years of service will have 1 month of annual leave.

This is also a reform which Guangzhou has undertaken ahead of others. In fact, the increase in the paid annual leave of cadres and staff members is favorable to raising the enthusiasm and the efficiency in work. In the past, we were used to eating out of the "same big pot." The government organs were overstaffed. There were many so-called cadres who were reading the newspapers and taking coffee breaks. Everywhere, workers were seen to work sluggishly and to dispute over trifles. If we establish a system of personal responsibility for each cadre and staff member, then, wasting 1 hour a day means wasting 360 hours a year, which means 45 working days. Since there are over 20 million cadres throughout the country, we might obtain better results if we do things in a down-to-earth manner, and increase 20 to 30 days of paid leave in a year.

Of course, the reform of the cadre personnel is not just a problem of leave but also a major problem of wages. It has been reported that, in the new year, an all-round wage reform will be undertaken in the mainland. Wages will be divided into four parts, namely, basic wages, functional wages, annual salary and floating wages (bonuses). The system of personal responsibility will primarily be promoted, which will involve more pay for more work and the shattering of the old style of "the same big pot." In this way, we believe that the efficiency in work of the government departments will be greatly raised, and a breakthrough in the improvement of the cadres' livelihood will be brought about.

HONG KONG MEDIA ON CHINA

CHANGCHUN AIRPORT EXPANSION PLANNED

Hong Kong TA KUNG PAO in Chinese 30 Nov 84 p 2

[Article: "The Changchun Airport Will be Expanded"]

[Text] Since opening up to the outside world and accelerating the pace of the economic construction, Changchun City, the capital city of Jilin Province, has increased its foreign economic and cultural exchange activities. The expansion of the airport brooks no delay.

The Dafangshen Airport--the port of civil aviation for the Changchun City--is located in the west suburb. From 1950 when air traffic was opened up to now, the airport has enjoyed a history of 34 years. The annual passenger volume totaled some 12,000 people, which was equivalent to the passenger volume of the Baiyun Airport in Guangzhou in 3 days. Because the airport was small and the facilities simple and crude, at present, only the An-24 small aircrafts could take off and land. This is far from meeting the needs of the economic development of Jilin Province.

An Investment of 25 Million Yuan Will be Made

Concerned economic sectors and specialists in Jilin Province believe that, to bring about a basic change in the economic outlook of Jilin, an important factor is to expand the civil airport so as to link up Jilin Province and the outside world. After the provincial people's government had held a meeting to study the situation, standing vice governor Huo Mingguang [7202 2494 0342] was put in charge of the group to work on expanding the airport. Economic specialists, engineers and scholars of all fields were gathered together to carry out feasibility studies on the expansion of the Dafangshen Airport in June this year. A report on concerned studies was completed this month. After the provincial people's government has examined the report, an estimated investment of 25 million yuan in Renminbi has been made to lengthen the runways, expand the landing field and the airport terminal, and to change the airport into a large-scale airport that will enable the Boeing 707 and the Boeing 747 to take off and land.

Wang Weijing [3769 4850 4842], Newly-Appointed Head of the Civil Aviation Bureau

At a press conference, Wang Weijing, newly-appointed head of the Jilin Provincial Civil Aviation Bureau, talked about the plan for expanding the airport. He indicated that the major portion of the expansion project would involve the lengthening of the runway. Presently, there are two plans. One is to lengthen the runway to 2,900 meters, with the thickness being at least 35 cm, so that fully-loaded Boeing 707 can take off and land. The second plan is to lengthen the runway to 2,600 meters, which is slightly less expensive in cost.

Wang pointed out that, if the first plan were implemented, then the flights that took off or landed in Changchun could fly directly to all the places in the world. This would be the most ideal plan. The runway would not need to be lengthened in the next 30 years after the airport was put into operation. According to the design of the second plan, after refueling, a Boeing 747 with reduced load could land and take off, and could fly to Southeast Asia and Japan.

In addition, plans have been made to renovate the airport terminal, the landing field, the oil depot, and the navigation and night flight facilities, and to change them all into advanced facilities. In addition, a civil aviation ticketing building will be built in the city of Changchun, with the lower levels being ticket offices and the higher levels being guest houses. This way, a complete system of civil aviation service will be set up.

#### Estimated Increase to Four Lines

Currently, the civil aviation service of the Dafangshen Airport is handling nine flights every week. There are two lines of service: One from Changchun to Beijing, and another from Changchun to Shenyang, Beijing and Dalian. The airport terminal can hold 300 people. Wang Weijing indicated that, if things move according to plan, the airport terminal will be able to hold 600 people, which will double the present capacity. The landing field will be able to hold three Boeing 707, two Boeing 747 and five trident planes at the same time. In the plan, the lines of service will increase to four, which are from Changchun separately to Beijing (direct flight), Shanghai, Guangzhou and Dalian. Later, considerations will be made in flights to Xian and Chengdu.

Wang also indicated that the plans and programs concerning the expansion of the airport were presently awaiting the examination and approval of the State Council, the General Bureau of Civil Aviation and other departments. If the plans are approved, drawings will be done immediately. It is estimated that construction will begin in May of next year, and effort will be made to complete the major construction projects by October. By that time, the air traffic in Changchun will become much more convenient.

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HONG KONG MEDIA ON CHINA

BEIJING WILD ABOUT CROWDS, INFORMATION

Hong Kong TA KUNG PAO in Chinese 18 Nov 84 p 2

/Article: "Beijing's 'Crowd' and 'Information Craze'"

/Text/ Every Day an Average of 700,000 People Pass Through

Food, clothing, housing and transportation were all "crowded" during October in Beijing. Buses, trains and airplanes were all crowded. Buying crowds filled department stores and shops. Restaurants were crowded. Crowds searched for tailors. Hotel rooms were crowded. Crowds strolled the parks.... Such "crowds" are an exceptionally grand sight that is unique in the 35 years since the country was founded. There are many reasons for the phenomenon. One reason is that numerous people come from other provinces and municipalities. Every day an average 700,000 people pass through Beijing, give or take 100,000. Therefore plane and train tickets are hard to buy. Who are these 6-800,000 people on the move?

At a party one evening, a friend in the airline business told me that the passenger constituency on planes and trains has changed. The change is even more pronounced for passengers on airplanes and train soft sleeper seats. In the past, only cadres at the director-of-an-office level or above and high-level intellectuals rode soft sleeper cars. General cadres could not charge soft sleeper train seats or plane tickets to their expense accounts. Now however, a bureau head taking a business trip who wants to buy a soft sleeper train seat or a plane ticket will meet many setbacks. Some people even have to cancel their trips because they cannot get tickets. Then who are the new passengers riding soft sleeper train cars and airplanes? My friend in the airline business let it slip out that they are news gatherers! This new noun refers to purchasers from large urban companies and village enterprises, to "lone travelling traders" from rural specialized households that run to Guangzhou, Shanghai and Beijing. Some buy and sell. Prices vary from city to city. To save time, they do not mind spending a little more on travel.

Gathering and Listening to News

Besides the aforementioned news gatherers, many of the masses on the move who recently crowded into Beijing are "news listeners." When they hear a rumor of an overall price rise, they run to the capital to buy things. They are not producers nor peddlers but people from well-to-do households, including the "10,000 yuan households."

In October the news gatherers and "listeners" turned the city of Beijing into a peculiar prosperous sight with their crowding. When you talk about panic buying, how many more are out-of-towners? Of course there were also Beijing residents. At present, the country's economy overall is good, there are more wealthy people, appropriate consumption is advocated and people want to buy top grade goods or buy more than normal before a price rise in the big city. Such an attitude is understandable. This may be one reason why there are more people reading the circulating news.

#### Several Score Information Journals

Another noticeable trend is the publication of information newspapers. They are being published by the central government on down to the localities. More than 10 are mailed throughout the country, such as the CHINA VILLAGE TRADE INFORMATION /ZHONGGUO CUNZHEN BAIYE XINXI BAO/; plus the Industry Edition /GONG KAN/, Commerce Edition /SHANG KAN/, and Poultry Edition /QIN KAN/ of the same publication; CULTURAL EXCHANGE (SCIENCE, TECHNOLOGY AND ECONOMIC EDITION) /WENHUI XINXI BAO (KEJI JINJI BAN)/; SHANGHAI ECONOMIC INFORMATION /SHANGHAI JINGJI XINXI BAO/; MARKET INFORMATION /SHICHANG XINXI BAO/; SCIENCE AND TECHNOLOGY INFORMATION /KEJI XINXI BAO/; REFORM INFORMATION /GAIGE XINXI BAO/; HUNAN ECONOMIC INFORMATION /HUNAN JINGJI XINXI BAO/, etc. All are weeklies or biweeklies.

The CHINA ADVERTISING INFORMATION /ZHONGGUO GUANGGAO XINXI BAO/ was the first paper published to use advertise and information in its name. It began publication on 1 September 1984. In two short months circulation grew to 200,000; next year it will change from a weekly to a biweekly. Other papers named for advertising that will come out next year include the CHINA ADVERTISING /ZHONGGUO GUANGGAO BAO/; ADVERTISING /GUANGGAO BAO/; and ECONOMIC ADVERTISING /JINGJI GUANGGAO BAO/.

Regarding papers dealing with market information besides those of the same name, there are quite a few from the central government to the localities. For example, there is Hunan's SECOND LIGHT INDUSTRY MARKETS /ERQING SHICHANG BAO/, Shanxi's CHICKENS DUCKS GEESE QUAIL AND PIGEONS /JI YA E CHUN GE BAO/, and Beijing's MARKETS /SHICHANG BAO/.

From the above we can see a bit of how "information" is highly regarded by trades throughout the country. Of course this is due to the policy of "opening to the outside world and enlivening the domestic economy." "Time is money and efficiency is life." Therefore it can be said that information is the key to economic and business success.

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HONG KONG MEDIA ON CHINA

BRIEFS

CHINA'S FOREIGN EXCHANGE--The Journal CHINA'S BANKING, published today, stated clearly that China's foreign exchange reserve has increased again. By the end of September, the figure has reached \$16.674 billion. Last month, it was \$16.565 billion. (Note from the editor of this newspaper: By the end of the June, China's foreign exchange reserve amounted to \$16.481 billion. China's gold reserve is still 12.67 million ounces. Greater changes have taken place in the exchange rate between the Ren minbi and the dollar and the Special Drawing Right. The average conversion rate of the dollar to Renminbi was: 2.2939 in July, 2.3643 in August, and 2.5326 in September. Statistical materials have also publicized the amount of loans of China from foreign countries: \$3.582 billion in July, \$3.683 billion in August, and \$3.753 billion in September. [Text] [Hong Kong TA KUNG PAO in Chinese 5 Dec 84 p 1] 9335

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HONG KONG ECONOMIC TRENDS

ADVISORY EXCHANGE RATE IN HONG KONG DISCUSSED

Hong Kong TA KUNG PAO in Chinese 26 Nov 84 p 4

[Article: "Should The Advisory Exchange Rate For the Hong Kong Dollar Be Abolished?"]

[Text] After the initial signing of the Sino-British Joint Declaration on Hong Kong, whether or not the system of advisory exchange rate of the Hong Kong dollar should be abolished for a time aroused a rather major controversy. One opinion held that the existing system was an emergency measure which the Hong Kong government adopted last year when faced with a major monetary crisis. With the satisfactory resolution to the Hong Kong issue, the people of Hong Kong gradually regained their confidence. This would be the time to consider the abolition of the system of advisory exchange rates.

The Precarious Exchange Value of the Hong Kong Dollar Has Stabilized.

Not long ago, in the legislative bureau debate on the content of the joint statement, banker Bai Lang [4101 2597] opposed the abolition of the existing system of the exchange rate of the Hong Kong dollar. In spite of that, he raised a point of doubt: When the dollar weakens in the future, what measures should the people of Hong Kong take when the economy of Hong Kong is affected by the related exchange rate?

Rao Yuqing [7437 7411 1987], professor of Economics at the University of Hong Kong, is an economist who favors the adoption of the existing system. In an interview by the reporter, he repeatedly emphasized that the system of advisory exchange rate stabilized the exchange value of the Hong Kong dollar in the midst of the storm last year. In the past year, the new system has worked well. Under the prerequisite of weighing the stability of the monetary system, this is not the appropriate moment to consider the abolition of the system of advisory exchange rate. In the next 13 years, we still must not be indiscreet in considering the restoration of the floating exchange rate of the Hong Kong dollar.

Should We Look at the Short-Term Performance in Restoring the Position of Strength?



Reviewing the sustained drop of the exchange value of the Hong Kong dollar for more than a year, one reason for the speculative unrest was undoubtedly the question of the confidence of the people of Hong Kong. However, the weakening of the Hong Kong dollar since early 1977 was undeniably also a major factor for the drop of the exchange value. In analyzing this phenomenon, Rao Yuqing said very frankly that, whether or not the Hong Kong dollar would be restored to its position of strength could not be seen through short-term performance, and that it was still doubtful whether or not this short-term performance could withstand the assault of large-scale speculation.

It is Difficult to Link Up the Hong Kong Dollar With the Package of Foreign Currencies.

Rao Yuqing held that, prior to the adoption of the system of floating exchange rate of the Hong Kong dollar in November 1974, the Hong Kong dollar was successively linked up with the British pound and the U.S. dollar, giving the former 100 percent guaranteed convertibility. In the future, when we continue to adopt the existing advisory exchange rate, we can continue to guarantee the convertibility of the Hong Kong dollar, which will indirectly strengthen the confidence of most people who are holding the Hong Kong dollar. If we abolish this direct link, then, under the circumstance when the Hong Kong dollar lacks "foreign exchange restrictions," how can we maintain its stability? This is a question which the advocates of the system of floating exchange rate must carefully consider.

Concerning the question of possible impact on the Hong Kong dollar when faced with the weakening of the U.S. dollar, in the past, some economists who advocated the adoption of the system of an advisory exchange rate for the Hong Kong dollar once proposed the linking of the Hong Kong dollar with the package of foreign currencies, or with SDR (Special Drawing Rights), which would protect the exchange value of the Hong Kong dollar from the weakening of any currency. Rao Yuqing felt that, although this was a theoretically feasible method, it was much more complicated than the existing system in actual implementation. Would the public be able to understand such a complicated system? Would the complicated system inhibit its utilization? In addition, we should also discreetly study the factor involving the cost in information and trade in the adoption of a more complicated system.

Four Reasons that Make the U.S. Dollar a Strong Currency.

Rao Yuqing has adopted a more affirmative attitude toward the fact that the U.S. dollar has continued to be a strong currency. He said, the reasons why most people value the U.S. dollar are as follows: (1) The long-term stability of U.S. politics has made the United States the refuge of capital for many countries. (2) In spite of the existence of short-term economic problems, the potential of the United States is still very great and unmatched by other countries. (3) The United States still occupies the foremost position in scientific progress and technological breakthrough. (4) In respect to the monetary service business, the United States continues

to offer new services and products, thereby guaranteeing its important position in the stocks in the monetary business.

Rao Yuqing held that, even if we abolish the relationship between the exchange value of the Hong Kong dollar and the U.S. dollar, yet, because the United States is the most important export nation for Hong Kong, and because the two also enjoy an extremely close relationship in other investments as well as the monetary relationship, it is also rather questionable as to whether or not the Hong Kong dollar can remain entirely independent of the influence of the U.S. dollar should the U.S. economy decline.

#### The Prerequisites for Abolishing the System of Advisory Exchange Rate.

Through the above analysis, we can see that there are two prerequisites to abolishing the system of advisory exchange rate for the Hong Kong dollar: (1) Hong Kong is no longer faced with the problem of confidence and the Hong Kong dollar has enjoyed a considerably long period of stability. (2) We must be able to effectively control the amount of currency.

From the standpoint of economics, Rao Yiqing pointed out still another problem: Can the establishment of a Central Bank or a bureau of monetary management effectively control the amount of currency? At present, a "revolution in the monetary business" is taking place in the world. Break-throughs in monetary technology and new monetary services and products continue to appear one after another. Under such a circumstance, it is very difficult to reach an appropriate method to fix the amount of currency. If it is impossible to fix the amount of the various types of currency, how can the bureau of monetary management effectively control the amount of currency? Even the highly-experienced Central banks such as the U.S. Federal Reserve Board and the Bank of England are troubled by the above problems.

#### The Most Important Goal is Still to Maintain the Stability of the Value of the Hong Kong Dollar.

Of course, the existing monetary system in Hong Kong presents some unjust aspects. For instance, by allowing one or two commercial banks to function as central banks, a contradiction between public and private interest inevitably occurs. In the long run, Rao Yuqing felt that ultimately it would be necessary for Hong Kong to set up an independent and fair bureau of monetary management to perform such functions as overall planning for the amount of currency, supervision of the monetary organizations and management of foreign exchange funds. But in the 13 years of transition, the most important goal in the monetary policy of Hong Kong is still to maintain the stability of the Hong Kong currency and protect the safety of the monetary system. As for the basic reform in the monetary system, for the time being, we should give the matter further thought and discuss it later.

## HONG KONG ECONOMIC TRENDS

### FOREIGN INVESTMENT IN HONG KONG REPORTED

Hong Kong WEN WEI PO in Chinese 12 Dec 84 p 9

[Text] The Department of Industry published the results of a three-month old study, showing foreign investment of over 11.4 billion yuan by the United States, Japan and the United Kingdom in building over 400 factories in Hong Kong, with a concentration on the electronics and textile industries.

A recently completed statistical report by the Department of Industry showed that, by September of this year, there were 472 factories utilizing foreign capital. The Department of Industry had detailed information on 442 factories, giving a total amount of investment of 11,448,000,000 yuan. Compared to the statistics in August 1981, there was an increase of 63 percent.

Yesterday, Yaxley, director of the Department of Industry, publicized the results of a study carried out from July to September this year. A similar study was carried out 3 years ago. Yaxley pointed out that the primary purpose of the recent study was to obtain the latest statistical information on the foreign investment in the industries in Hong Kong.

The results of the study showed that the United States, Japan and the United Kingdom were still the primary sources of overseas investment in our industries. They respectively constituted 53.7 percent, 21.1 percent and 6.9 percent of the total amount of investment. The others were Holland (2.8 percent), the Philippines (2.6 percent) and Switzerland (2.5 percent).

The thrust of the overseas industrial investment was in the electronics industry, the textile and garment industry and the electronic products industry. These industries constituted 35 percent, 9.8 percent and 8 percent of the total amount of investment respectively. Other major industries include nonmetallic mining products, such as the materials for the building industry and glass fiber products (constituting 7.6 percent), food and beverages (constituting 7.2 percent) and chemical industrial products (constituting 7 percent).

Constituting Nearly 20 Percent of Direct Export, These Factories Were a Great Contribution to Hong Kong's Export.

Yaxley pointed out that, although there was a relatively small number of factories with foreign investment, constituting 1 to 1.5 percent of the total number of factories in Hong Kong, yet these factories have employed 89,033 workers, constituting 10 percent of the total labor population of Hong Kong. In 1983, the gross volume of sales of goods of these factories of foreign investment amounted to 27 billion yuan, 68 percent of which was from goods through direct export. This was equivalent to 17.8 percent of the GNP of Hong Kong. In addition, it was believed that a large portion of the goods to be sold locally, such as electronic parts, yarn and electrical appliances, would also be exported along with products of other categories.

Yaxley said that the production volume which these factories contributed to Hong Kong's export was almost certainly greater than that represented by the figures. If we consider also the other benefits which these factories have brought along, such as scientific and technological transfer, modern management skills, and technological training, then we will be able to realize that they do indeed occupy a position of importance in the manufacturing industries of Hong Kong.

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HONG KONG ECONOMIC TRENDS

HONG KONG FINANCIAL SECRETARY PRESENTS ANNUAL BUDGET

HK280251 Hong Kong Domestic Service in English 1000 GMT 27 Feb 85

[Excerpts] In today's budget, the financial secretary, Sir John Bremridge, has announced new tax measures aimed at raising \$1.3 billion. Sir John avoided any increase in salaries or profits tax, and offered modest concessions to some salary earners. However he has proposed increases in a wide range of indirect taxes on a number of consumer items including beer, cigarettes, cosmetics and soft drinks. Also costing more will be driving licenses, car registration, government tunnel fees, petrol, departure taxes, postal charges, plus fees for government services. The end result for the coming year will see the deficit cut back to \$1 billion, which the government will cover from its reserves. With the details, here's Nick Beacroft:

[Begin recording] [Beacroft] In a speech lasting just 1 hour and 40 minutes, Sir John Bremridge decided to break with tradition and outline his tax proposals at the beginning of the speech and set out the overall picture. Sir John explained the general thinking of the government toward the economy.

[Bremridge] Your government remains committed to support of the free-market economy; to provision of the infrastructure within which enterprise can flourish without unnecessary government regulation; to the care of those who cannot care for themselves; and to low overall taxation. Hong Kong is not a tax haven, but we know, not least from the experience of others, that moderation in taxation is an essential spur to individual effort. Tax avoidance is not. My revenue proposals for 1985-86 reintroduce two old measures of indirect taxation. I propose also increasing some taxes, licenses, duties, fees and charges, in total designed to raise revenue by \$1.35 billion.

[Beacroft] Sir John explained that the intention was to finance the ostensible deficit of \$2.2 billion. He said no taxpayer liked additional tax burdens, and he believed that there was support for a steady return to balanced budgets. Sir John summed up his concise budget speech by saying that the majority of Hong Kong people saw that over a cycle of years, a balanced budget for the territory was essential, as it was in their own households. He said this was being achieved by continual downward pressure by the administration on public sector expenditure and by continual upward pressure on revenue. [End recording]

Sir John made it quite clear that his intention is still to produce a balanced budget by next February, and in terms of his budgets to date, the deficit is gradually shrinking, down from \$3.5 billion in 1982-83 to just \$1 billion in the coming year. That's after the new taxes will have raised a net \$1.2 billion in new revenue, and rather than paying for the deficit with another bond issue, he's chosen to draw the entire \$1 billion out of fiscal reserves. Sir John also says that the increase in taxation is shrinking each year, with the actual amount raised in new taxes falling. To that extent, taxpayers are being slugged less hard.

In terms of revenue, Sir John sees even less money coming in from land sales this year. They will raise some \$2 billion, but about \$300 million of that will be set aside for the future special administrative region government.

The government is however by no means short of cash. After paying for last year's deficit, which in fact was \$300 million down on expectations at \$1.8 billion, fiscal reserves stand at more than \$15 billion. Even after subtracting contingent liabilities, Sir John still has more than \$6.5 billion in free fiscal reserves from which to draw down from. However he may not do so to pay for anything else other than the deficit. He said he would be prepared to consider another bond issue to pay for any specific capital requirement, using as an example increasing equity in the mass transit railway.

Looking at the economic prospects for the coming financial year, Sir John was able to paint a picture only slightly less rosy than that of last year. Bill Barnes has been looking at this section of the budget:

[Begin recording] The growth in domestic exports for 1985 was forecast by Sir John to be around 11 percent in real terms. This is less than last year's hefty 17, but combined with a growth forecast for reexports of 30, this brings the rise in total exports to 18 percent. This compared with total exports of 22 percent for 1984 [as hard]. This will be, as Sir John pointed out, still very satisfactory. He said Hong Kong would continue to benefit from the growth in the world economy, though he noted that the United States is likely to grow by only some 3.5 percent, therefore some slowdown in exports to the U.S. can be expected. Trade with China, now Hong Kong's second largest export market, is likely to continue to grow rapidly.

The financial secretary forecast that the gross domestic product will grow by 7 percent. In making this estimate, Sir John said that the uncertainty of the future is now removed by the joint declaration. This will result in private investment in plant and machinery rising by 16 percent, and private investment in building and construction actually rising by 2 percent after a decline of 9.5 percent in 1984.

Inflation is expected to be 5.5 percent in 1985, less than 1984's 8.1 percent. Under the linked exchange rate system, Sir John said, our inflation rate is continuing to fall closer to that of the United States. [End recording]

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HONG KONG ECONOMIC TRENDS

HONG KONG'S FINANCIAL SECRETARY SUGGESTS TAX INCREASES

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[Text] Hong Kong, 28 Feb (XINHUA)--Hong Kong's financial secretary, Sir John Henry Bremridge, has suggested increasing taxes to cover an estimated 1.8 billion H.K. dollars (about 500 million yuan) shortfall in the 1985-86 budget.

Such a deficit would be 1.2 billion and 1.7 billion H.K. dollars less than the shortfalls of the previous two fiscal years respectively.

Sir John mentioned these figures while presenting Hong Kong's draft budget to the Legislative Council on Wednesday.

He suggested introducing two indirect taxes and raising rates of other taxes and levies as measures to meet the deficit.

Sir John also reported that Hong Kong's production value rose by 9.6 percent in 1984, compared with a 5.1 percent increase in 1983.

Its foreign trade rose sharply, helped by the economic recovery in the United States and other places, as well as the new economic policies on the Chinese mainland.

Exports of goods manufactured in Hong Kong rose by some 17 percent and entrepot (or-export) trade soared by about 30 percent, to produce an increase in overall exports of 22 percent. Imports increased by 15 percent.

He predicted that Hong Kong's overall exports would rise by just 18 percent this year, because the economic recovery in the United States would slow down while the Hong Kong dollar would remain stronger than most European currencies, thus weakening the competitiveness of Hong Kong products.

Spurred by Hong Kong's recent economic boom, he said, the local unemployment rate dropped to 3.8 percent in the fourth quarter of last year, compared with 4 percent a year ago. Meanwhile, the rate of underemployed workers fell from 1.4 percent to 0.8 percent.

Last year, the inflation rate dropped to 8.1 percent from 10 percent in 1983, partly thanks to the stable exchange rate of the H.K. dollar against the U.S. dollar.

This year's increase in output value was likely to be about 7 percent, he added.

He expected the inflation rate to fall to 5.5 percent this year, with a moderate increase in private consumption on the 1984 rate of 5 percent.

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## HONG KONG ECONOMIC TRENDS

### HONG KONG/U.S. MOVE ON COUNTRY-OF-ORIGIN RULES 'UNREASONABLE'

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[By Suzanne Sim]

[Text] Hong Kong's knitwear industry was in [a] state of confusion following the U.S. green light for the country-of-origin rules with little modification.

The industry learned at the weekend that the final rules announced by the U.S. Customs Service involved no changes for the knitwear sector.

Industrialists called the U.S. move "unreasonable, selfish and inconsiderate."

Industrialists will now have to restructure the industry to stay in business, Mr Frank Lin, managing director of Milo Knitwear Ltd, told BUSINESS NEWS yesterday.

According to an agency report, the U.S. Customs Service said in a statement that the final regulations differ slightly from interim rules which took effect on 7 September.

The final rules take effect from early next month.

Different versions of the final draft of the regulations have been floated in the industry, Mr Lin said.

But it was difficult to say what the ramifications would be until the final draft was seen.

Mr H. C. Tang, deputy managing director of Winsor Industrial Corp, criticised the U.S. move as "selfish" with little consideration for Hong Kong or other countries, including the Europe Economic Community.

He said the U.S. has disregarded Hong Kong's efforts to try to reach an amicable solution.

He urged local industrialists to think of ways to meet the criteria contained in the final rules.

Under the GATT agreement, Hong Kong could bring the case to the Council of the General Agreement on Tariffs and Trade (a higher level than the Textile Surveillance Body), or even claim compensation, as China has threatened to do.

But Mr Jimmy McGregor, director of the Hong Kong General Chamber of Commerce, said that owing to Hong Kong's lack of political and economic muscle, such measures are unlikely to succeed.

Mr Lin said that as far as he knows no parties which had undertaken this measure had ever succeeded and at this juncture it was better to leave that decision to the government.

Previous attempts by Hong Kong to bring the case to the Textile Surveillance Body, although bringing recommendations in Hong Kong's favour, had fallen on deaf ears in the U.S.

In Mr McGregor's view the U.S., in pushing through the rules, had embarrassed the GATT and further indicated "the weakness of the GATT and its lack of legal power to compel the U.S. to follow its recommendations."

If Hong Kong sought compensation, he said, it would bring a negative response.

Describing the U.S. as "unreasonable," Mr McGregor said "Hong Kong should work in concert with other countries which are badly affected by the new rules. That includes China."

Industry sources feared that a major shake-up in the industry was likely with the closure of smaller factories or sub-contractors.

Only the bigger companies with the financial muscle would be able to restructure. Meanwhile, Hong Kong would certainly lose more orders as U.S. importers were uncertain about future implications flowing from the rules.

The Joint Committee of Hong Kong Knitwear Associations will hold a meeting today or tomorrow on the rules.

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END